



Business Plan Development

About this Topic: Business Plan Development



Topic Mentor

Linda A. Cyr

Linda A. Cyr is Assistant Professor of Business Administration at the Harvard Business School. She teaches entrepreneurial management and coaches M.B.A. students and future entrepreneurs on the development of effective business plans. Prior to joining the HBS faculty, she taught at Cornell where she earned a Ph.D. in Industrial and Labor Relations.

Topic Source Notes

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What Would You Do?

What would you do?

Kyla wanted to apply for a loan so she could expand her sailboat business. Her goal was to secure enough funds to make a major capital investment and finance her move into a new market. She talked with the loan officer at her bank. The loan officer reviewed her statements that documented her business's cash flow and took notes as she described the growing demand for her high-end sailboats. He then asked for a copy of her business plan.

Business plan?! Why did she need a business plan when she already had a successful company—which she simply wanted to expand? How could she convince the loan officer to lend her money?

What would you do?

Even though Kyla already runs an established, successful company, she should take the time to prepare a business plan. A business plan is essentially a map for your business, a detailed guide that depicts your business concept, the business opportunity, the competitive landscape, the keys to success, and the people who are, or will be, involved. Preparing and then writing a business plan is a time consuming process, but well worth the effort. It's an important sales tool to use when you want to borrow money or gather support to launch a new product or service.

In this topic, you'll learn how to write a business plan designed to inform and motivate the people who will be reading it.

Even if you have a financially successful business, you need a business plan to guide future decisions, sell your ideas to investors, and help you manage growth effectively.

Topic Objectives

This topic will help you:

- Learn the kinds of information that need to be contained in a successful business plan
- Present that information so that your readers get what they need and understand quickly what you're asking of them

The need for a plan



Every business needs a business plan, a plan to meet the expected and unexpected opportunities and obstacles the future holds. Every business—whether it's a start-up company, an expansion of an existing firm, a spin-off from a parent corporation, or even a project within a company's marketing or new products department—needs a guide to navigate successfully through its own unique competitive environment.

Preparing a business plan is *part* of the process of preparing for a business. A business plan is not simply a document that's written quickly, passed around once, and then relegated to some dusty shelf. It's not a slightly modified version of a standard template drawn from a how-to book or an Internet site. Preparing a business plan is an intensely focused activity. It's an activity that requires honest thinking about your business concept, the business opportunity, the competitive landscape, the keys to success, and the people who will be involved. You'll find that your analysis results in more questions than answers, and so the next step in the process is to do the research to answer those questions.

Writing the business plan is the final step in the arduous process of preparing the business plan, and preparing the business plan is only one stage—though a critical stage—in developing a healthy, thriving business enterprise.

Leadership Insight: Planning for success

Talking about business plans, my first venture failed because I didn't have one. Let me tell you the whole story. I'm on an airplane, and I meet this person sitting next to me, and we start discussing an idea. And suddenly I realize, yes, it's a great idea. I fall in love with the idea and decide to invest. We partner, and I think about creating a business plan, writing all about it, talking about the risks, what we could do. And then I said, "No, the idea is pretty good, my gut feeling is right. Let's go ahead."

I invest. Three months down the road, I'm wondering, what's the output? My partner says, "We're doing good. Let's go ahead. Everything is going to be all right." And nine months down the road, I see the writing on the wall. I made a bad judgment. The idea was good. It felt good, but people wouldn't buy it. I had to close down the venture.

A few years later, another idea comes into me. I come across this set of people, but I realized my mistake, and I say, "Not this time, not without a business plan." I sit down, I think through the whole plan. I weigh my assumptions, talk to people, check with them. Are my assumptions OK? Am I thinking in the right direction? Is everything going to be all right? And then when I create a business plan and invest in it, I'm so much more confident. I think things are going to be great.

Three months into the venture, I'm feeling pretty OK, very confident, we are on the right track. And it has been seven years since. Now it is a thriving business. See? The power of the business plan.

When I get into my MBA, I enter my business plan into competitions. I present my business plan to investors. Those people bite into it. They are willing to invest in my venture there and then, just because I have a sound business plan. And this is where I feel that a business plan is critical for your success. There is no way around it.

Without an appropriate business plan, an investment can crash and burn.

Prashant Pundrik

Supply Chain Associate, ConocoPhillips Asia Ventures Pte Ltd.

Prashant Pundrik is a Supply Chain Associate for ConocoPhillips Asia Ventures Pte Ltd. ConocoPhillips (COP) is the third-largest integrated energy company in the United States, based on oil and natural gas proved reserves and production. Headquartered in Houston, Texas, the company operates in nearly 40 countries around the world.

Before joining COP, Prashant worked at the manufacturing facility of Asian Paints, India's largest paint company. His previous experience also includes information technology consulting.

Prashant has a master's degree in mechanical engineering and a Master of Business Administration from National University of Singapore.

Define your purpose



Depending on the size and state of your project, the process of preparing, developing, and writing the business plan can take some time to accomplish. And once that's done, the business plan should be used and reused often to see whether your critical assumptions about key success factors are becoming realities. So before you plunge in, think about some of the overarching issues that can help shape the process of preparing the business plan. Start by asking yourself why you are preparing a business plan and what you are trying to accomplish by this undertaking.

If your plan is to be a proposal within the resource-rich environment of a large corporation, then certain sections of the business plan, such as the marketing or operations plans, could be short and less developed than other sections. If, on the other hand, you are in a resource-constrained environment

and you are using the plan to raise money from venture capitalists, then you should focus on the sections they might consider key, such as the opportunity itself, the competitive analysis, the management team, and the financial expectations.

Key Idea: Define your audience

Key Idea

Know who will be reading the plan and why. Different types of audiences (or readers) will look for different information in a business plan. If you are clear about who your readers will be, then you can be more successful in providing them with the information they consider most important.

- If your venture is intrapreneurial, then your plan will be directed toward the board of directors or a management committee making capital investment decisions. If your venture is entrepreneurial, then your audience may be lenders or investors. Lenders will be considering the riskiness of the loan as they look at payback periods and cash-flow data. Investors, on the other hand, may want to know what the breakeven points are and what the return on investment will be; investors will be interested in the longer-term potential of the business.
- In all cases, a smart audience will be considering the value of your business based not just on the financials, but on the soundness of the plan as a whole—the opportunity in the market, the differentiated product or service you will offer, the people involved, the competitive landscape, and, most importantly, what the financial returns will be.
- Ask yourself what you expect from each type of reader. Do you want a corporate stamp of approval or the active support of upper management? Do you want funding alone, or do you want connections with other investors or other business partners? Do you want a loan to be repaid, or are you willing to share ownership and profits?

Do you know how to maximize the impact of your business plan on your most important audience? Learn the essential questions you should ask yourself before you begin.

Determine your information needs

Before you begin to put the plan together, determine whether you have all the information you need for the plan. You may have to do some research first. For example, have you confirmed the necessary production costs for your product? Have you checked out options for office space? Is your competitor analysis complete and up-to-date? Have you selected the most appropriate legal structure for your business?

Information sources

Where can you find answers to these questions? There are many sources for information—some are simple and inexpensive and some take time and money to discover. Before hiring market research professionals, check the readily available resources.

- The local library is an easy and rich source of information.
- The local chamber of commerce has programs, networks, and support for growing businesses.

- The Internet has a wealth of industry-, market-, and company-specific information, but be careful about the sources. Use only official sites, such as the Small Business Administration, the IRS, the Census Bureau (a good source of geographic and demographic data for industries and markets), the Association of Small Business Development Centers (they have valuable pamphlets and training programs, and also offer various funding options), or Standard & Poor's. In addition, the Wall Street Journal is online, as well as many major accounting and financial services firms.
- State departments of economic development provide publications, grants, and programs for businesses.
- Industry publications, trade shows, and professional journals are all good sources for up-to-date news and issues.
- Even your competitors, perhaps those beyond your geographic market, can be useful sources of information about various marketing strategies and customer buying patterns.

Structure overview

The most common business plan structure is to move from short, general summaries to more detailed explanations. Thus, the opening sections—the executive summary and the business description—are both brief overviews of the business. The body of the plan consists of more in-depth descriptions of the fundamental elements and concerns of the business—the *who*, *how*, *what*, and *where* of the business. The attachments at the end include the most detailed information—the financial data, management résumés, etc. A typical structure for the business plan follows:

- Cover page and table of contents
- Executive summary
- Business description
- Business environment analysis
- Industry background
- Competitive analysis
- Market analysis
- Marketing plan
- Operations plan
- Management summary
- Financial plan
- Attachments and milestones

Not all business plans follow this model precisely, of course. A plan may combine some elements, add new sections, and eliminate others, but the critical information the readers need to know for a particular business must be included.

For example, the business plan for Private Communications Corporation (PCC), which will be used as an example throughout this topic, has all the components listed above, but the marketing plan and operations plan have been combined into one section. Despite variations in the structure of business plans, all basic business plans will comprise descriptions of the opportunity, the context, the managers, and the financial risk and reward.

Leadership Insight: Crossing the river

When I started my career back in the 1960s, I always thought it was going to be a very linear process. That I'd start, I'd do these certain things, and I'd end up at a certain destination. And what I learned is that it was never that linear. And that's what it's like when you're building a business: it's not linear. You get started and you learn along the way. And you take lots of different paths.

So I always liken it to crossing a river. It used to be, the way we taught you'd build a business is that you'd start on one side, you'd say, "I'm here. And look at all the stones I need to step on to get from here to there." And then, only once I've figured out all the stones along the way, would I get started. And I'd take that linear path and then you'd stop.

But really what it's like today is people say, "I'm here on this side of the river. I look across the river and I say, 'I want to get somewhere over there.' And I see this stone and I see this stone, but I don't see any other stones." How do you get started? What do you do? If you wait, you'll never get started.

So the key is that you try to step back and say, "I've got a direction that I'm going in. I'm going to take this stone. I'm going to take this stone. And then, I'm going to learn along the way and be open to where I go next."

We think about it in terms of three different time frames. There's the long-term vision of where you're going and the direction you want to go. There's the medium-term positioning — maybe like an island in the middle of the river — where you say, "This is where I think I'm going to get to next." But then it's a journey, not a destination.

And you take one step and another step and you learn along the way.

Building a business is not a linear process. Know your direction, but be alert to different paths.

Lynda Applegate
Professor & Unit Head, Entrepreneurial Management, Harvard Business School

Lynda Applegate is the Martin Marshall Professor of Business Administration at Harvard Business School, teaching courses in entrepreneurial management and technology and innovation.

Her current research and recent publications focus on the challenges of building new ventures and leading radical business innovation in the face of significant market, technological, capital market, and regulatory turbulence.

She serves as Chair of the school's Entrepreneurial Management unit and Owner-Managed portfolio of executive programs.

Prior to joining the HBS faculty, Lynda was on the faculty of the University of Michigan, University of Washington, and University of Arizona.

Her research and teaching have earned numerous awards, including Harvard Business School's Greenhill Award for Outstanding

Contributions to the School, the Berol Award for Research Excellence, and the Apgar Award for Innovation in Teaching.

Lynda is an active international consultant and has served on the board of directors of both public and venture-backed companies.

She is on the Board of Trustees of the Massachusetts Technology Council and has served as a member of the Industry Advisory Board for NASDAQ.

Cover page and table of contents

Cover page

It's worth making sure that your cover page is a sign of what's to come. The cover page is the first thing your audience will see; it's like a newspaper headline that gives the reader the quick information needed to decide whether to pass over this story or to continue reading. To ensure a positive first impression, your cover page should:

- Have a clean, professional appearance
- Include the name of the business or project
- Give your name and contact information
- Display the company logo or emblem

Table of contents

The next page of the plan, the table of contents, is another kind of headline for readers, letting them know at a glance what topics will be covered. Your readers will check the table of contents to see if it is inclusive—if all the important topics are listed. They will also note the maneuverability of your plan—that is, how easy is it to flip through the plan and quickly find the sections they want to read.

Key Idea: Executive summary sections

Key Idea

An executive summary may be the only section a reader uses to make a quick decision on the proposal, so it should fulfill the reader's expectations. The executive summary is a concise presentation of the main points of the business plan; it is a kind of abstract giving a brief overview of the business venture. What information can be included in an executive summary? As succinctly as possible, the executive summary should describe the following:

- **The industry and market environment** in which the opportunity will develop and flourish.
- **The special and unique business opportunity**—the customer problem your product or service will be solving.
- **The key strategies for success**—what differentiates the product or service from the competitors' products or services. Indicate how your company will be the first to market with the product or service, or how your company will have a more efficient distribution system than the competitors, or that you have acquired strategic partners in the venture.
- **The financial potential**—the anticipated risk and reward of the business.

- **The management team**—the people who will achieve the results.
- **The resources or capital being requested**—a clear statement to your readers about what you hope to gain from them, whether it is capital or other resources.

The executive summary may be the *only* part of your business plan a reader sees. Learn what is essential to include to capture the reader's attention immediately.

Formal executive summary

In its most direct mode, the executive summary is a formal statement presenting the company facts. As part of a legal document, Private Communications Corporation's executive summary (called the Company Overview) is an example of the formal type.

Private Communications Corporation's sample business plan

Company Overview

Private Communications Corporation ("PCC") was incorporated under the laws of the State of Florida on November 8, 1996. Its headquarters are located in Berkeley, California. The Company was formed for the purpose of developing and marketing a unique phone service product, more specifically described below. The Company has filed a petition with the Internal Revenue Service seeking to qualify as an "S Corporation" for tax purposes, in accordance with relevant provisions of the Internal Revenue Code. Although the Company anticipates that it will qualify, it has yet to receive confirmation of approval.

The Company was founded by Edward R. Defty and Andrew P. Laszlo who along with Paul Hoff and Ann Meceda are actively managing the Company. The management team, together with certain members of Cohen, Berke, Bernstein, Brodie & Kondell, P.A., a commercial law firm located in Miami, Florida, own 100% of the Company's issued and outstanding common stock.

The Company has developed a unique product (the "Product") which is designed to permit people to talk and socialize over an ordinary telephone, with complete anonymity and privacy. People can converse openly, yet without having to reveal their phone numbers, true identities or other personal information. The Product is being targeted initially at users of online chat rooms and online and off-line dating match services. Generally, it will be marketed through strategic alliances with proprietary online service providers (OSPs), Internet service providers (ISPs), chat rooms and dating match services. Additionally, the Company will promote the Product through targeted advertisements distributed over the Web and through more traditional print media.

The Company has scheduled the public launch of the Product for early April 1997, following the completion of a beta test, which is currently underway.

Mission statement

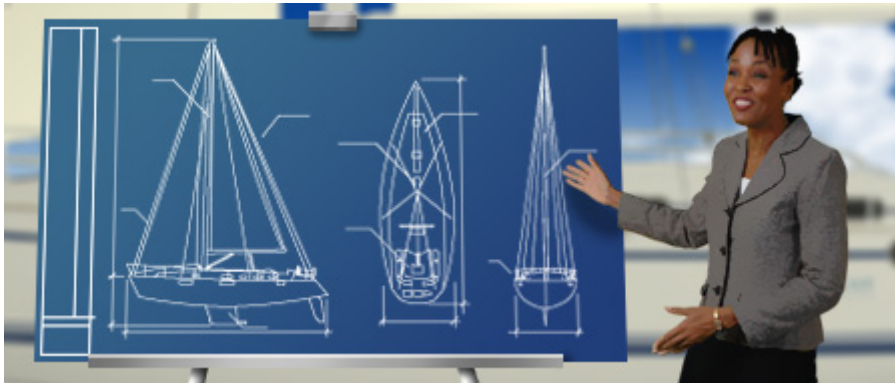
“Drive thy business, let not that drive thee.”
—Benjamin Franklin

The purpose of the executive summary is to give the reader a quick understanding of the proposal, but it can also serve to capture the reader's interest in the business. This type of executive summary can function more like a movie trailer than a condensed abstract to encourage the viewer to read on and see the whole picture. One component that can capture a visionary sense of the business is the mission statement. The mission statement should express the opportunity and business philosophy in one brief sentence.

For example, Private Communications Corporation's mission could be the following:

PCC's mission is to provide the consumer with a unique telephone service that offers all the benefits of telephone communication while protecting the user's privacy.

Purpose of the business description



The business description is another summary, but it focuses more directly on the business concept itself by giving a brief yet informative picture of the history, the basic nature, and the purpose of your business. State clearly what the business objectives are and why the business will be successful. The business description gives you the chance to introduce your business in terms of its unique qualities and the positive business environment existing for your product or service. Here you can give pertinent background information that makes it clear why your concept is exciting, and you can express your commitment and capacity for making the business succeed. Thus, the purposes of the business description are to:

- Express clearly your own understanding of the business concept
- Share your enthusiasm for the venture
- Meet the expectations of the reader by providing a realistic picture of the business venture

Contents of the business description

What goes into the business description? You should include information about the business, answering questions like:

- What is the history of the concept or the business—is it on the drawing board, at the start-up stage, or ready to expand?
- What markets will the business serve?
- What kind of business is it—manufacturer, retailer, or service business?
- What is the product or service?
- Why will people use it? What problem will the product or service solve for the customer?
- What is the financial status?

You may decide to also include the following information:

- Who will manage the business
- What the structure of the business is (partnership, corporation, affiliate)
- Where the business will be located

Product or service description

In some cases, the product or service is so unusual or technical that it deserves its own separate section to explain what it is and how it functions. A separate section will highlight for the reader the product or service's special features and unique points of differentiation.

For example, following the business description, Private Communications Corporation provides the reader with an in-depth product description as well.

Private Communications Corporation's sample business plan

Product Description

The Company has developed a unique telephone service which enables consumers to engage in two-way telephone conversations, using ordinary telephones, without either party having to risk disclosing their true phone numbers.

PCC's first product, directReach™, will be launched in April 1997. Employing a sophisticated switching system and proprietary software, the Product will enable customers to receive telephone calls on any designated telephone line, through a toll-free number and private extension. The Product provides three important benefits that address the target end user's needs: privacy, flexibility, and convenience.

The Product is a full-featured call management service that supports multiple extensions, several call handling options, and voice mail. When a customer establishes an account, he or she is granted a personal extension number that can be assigned to a specific telephone number such as a home, office, or cellular number. By giving others the extension number, in conjunction with the directReach™ toll-free number, the customer is able to receive phone calls and engage in totally private, anonymous telephone conversations.

The service is fully customizable, allowing the customer to configure the service to meet his or her unique needs. The user controls all Product features through a complete management system on the Web or through an easy to use Interactive Voice Response (IVR) telephone interface. Through this control system, the customer can easily:

- Register and activate the product using a credit card
- Specify the receiving number, and modify that number at any time
- Program different receiving numbers for different times
- Terminate an extension and obtain new extensions
- Customize voice mail and check for new messages
- Review account usage and change monthly calling plans

The software programming and product design are proprietary to PCC. This allows the Company to offer such important features as ease of use, flexibility, and convenience for both the caller and the customer. By enabling the customer to access all features through an easy to use interface, the customer can have complete control over the calls he or she receives. The ability to change a number of calling options allows customers to adapt the service to their schedules

and needs each day. In addition, customers and their acquaintances may call one another at any time, without having to first prearrange or coordinate a call.

Purpose of the business environment analysis



Understanding the industry, the competition, and the market in which your business will grow is fundamental to the development of a robust business plan. Your study will show that you have identified a real opportunity that solves a real customer problem. The result of the analysis will:

- Provide you with a thorough understanding of the business environment
- Guide you in developing an effective marketing plan
- Persuade the readers of your business plan of the realistic potential of your business venture.

The purpose of the business environment analysis is to show the reader what the business opportunity is in this industry and market. What is the problem you are solving for the customer? What pain are you easing? What special technology, new perspective, or unique concept will you offer the customer that will induce them to purchase your product rather than your competitors' products?

Understand the industry, competition, and market

Market is often used to describe the various elements of the total business environment. Here, however, the terms **industry** and **market** are used to describe separate but overlapping parts of the broader business environment. The industry is the group of companies that produce and sell products or services to the market. The market is where your product or service will be sold. The industry defines both your colleagues and your competitors; the market determines your opportunity and your customers. The area of intersection represents your business opportunity—that space in which the customer need and the product or service meet. The key questions to be considered in the business environment analysis are the following:

- **What is the industry?** What characteristics define the industry?

For example, does the industry manufacture shoes, including running shoes? Produce software for computer training? Provide temporary employment services for businesses?



- **Who are your competitors within that industry?** What companies sell the same or similar products or services to customers within your market?

- **What is the market?** For example, your market could be geographically defined as Boston or Atlanta, or it could be demographically defined as the teen market or the marathon runner market or the computer user market.
- **Who are your customers within that market?** Are you selling a product directly to teenagers themselves? To their parents? To clothes retailers selling to teens?

These questions are answered in the industry background, competitive analysis, and marketing analysis sections of the business plan.

Leadership Insight: Emerging markets

I work with entrepreneurs, in developing countries in particular, helping them to develop their business plans. Developing a business plan in an emerging economy is not too different from developing a business plan in a place like the U.S., except in some really important ways. Probably the most important way is getting the information that you need.

In a place like the U.S. or Europe, we have databases, we have small business associations, we have governmental organizations, that go out there and find data that you can use, and it's not necessarily a difficult thing to put it together. Analyzing it, that is one thing, but just getting the data is not hard.

It is an entirely different matter if you are in certain other countries of the world. There, getting the information that you need that is so critical — making sure that you're sizing the marketing properly, understanding the customers, knowing how they'll use products, knowing if they'll use products — really comes down to doing a lot of networking, and finding the right people. They could be in government, they could be in business, and they could just be out in a village somewhere.

It really comes down to networking and getting out there, feet on the ground, doing a lot of work yourself. I think that is probably the critical difference, and it makes it a much more daunting challenge to start a new business — an ambitious new business — in a new country. On the other hand, doing that work is what's going to ensure your success.

How can leaders develop business plans when data is not readily available?

Kate Sweetman
President, Sweetman Consulting

Kate Sweetman is an experienced leadership consultant, educator, author, editor, and speaker. Her coaching and consulting work has ranged from helping to shape more effective senior leaders and management teams in global corporations to supporting entrepreneurs in developing countries as they launch and grow their businesses.

She is an instructor at Massachusetts Institute of Technology's Legatum Center for Development and Entrepreneurship.

She is coauthor of "The Leadership Code: 5 Rules to Lead By" and an expert blogger on leadership for Fast Company magazine.

Kate previously worked at Harvard Business School as a research associate, where she taught the Management Communications course. Prior to that, she was an editor at Harvard Business Review.

Through her consulting experience, she has designed large-scale change initiatives at global corporations, working with a broad range of clients including Goldman Sachs, Verizon, Abu Dhabi Investment Authority, and DHL.

Kate holds a bachelor's degree in English from Yale University and a Master of Business Administration from Harvard Business School.

Activity: Market, industry or competitor?

Practice discerning the difference between industry, market, or competitor for the purpose of writing about each in the business plan.

Stay Afloat Boats manufactures and sells sailboats. Decide how to characterize the following entities.

Sunfare sells resort wear. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

☐ Market

Not the best choice. The clothing that Sunfare manufactures is related to Stay Afloat's business, but does not directly compete. Sunfare is not a direct consumer of Stay Afloat's merchandise.

☐ Industry

Correct choice. The clothing that Sunfare manufactures is related to Stay Afloat's business, but does not directly compete. Sunfare is not a direct consumer of Stay Afloat's merchandise.

☐ Competitor

Not the best choice. The clothing that Sunfare manufactures is related to Stay Afloat's business, but does not directly compete. Sunfare is not a direct consumer of Stay Afloat's merchandise.

Starboard Sail manufactures sailboats. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

☐ Market and Industry

Not the best choice. Starboard Sail manufactures sailboats that directly compete with Stay Afloat's. As a competitor, they are also part of the industry, but are not a potential customer.

☐ Industry and Competitor

Correct choice. Starboard Sail manufactures sailboats that directly compete with Stay Afloat's. As a competitor, they are also part of the industry, but are not a potential customer.

- ☐ Competitor and Market

Not the best choice. Starboard Sail manufactures sailboats that directly compete with Stay Afloat's. As a competitor, they are also part of the industry, but are not a potential customer.

There are some upper class households near the Hudson River. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

- ☐ Market

Correct choice. Stay Afloat's market is defined geographically and demographically by this entity.

- ☐ Industry

Not the best choice. Stay Afloat's market is defined geographically and demographically by this entity.

- ☐ Competitor

Not the best choice. Stay Afloat's market is defined geographically and demographically by this entity.

Lakeway Marina is a resort that offers sailboat rentals. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

- ☐ Market and Industry

Not the best choice. Lakeway is considered a competitor in some sense because customers may choose to rent a sailboat instead of purchasing one from Stay Afloat. Lakeway may also be a potential customer, buying their sailboats from Stay Afloat. Finally, Lakeway is also considered part of the industry.

- ☐ Industry and Competitor

Not the best choice. Lakeway is considered a competitor in some sense because customers may choose to rent a sailboat instead of purchasing one from Stay Afloat. Lakeway may also be a potential customer, buying their sailboats from Stay Afloat. Finally, Lakeway is also considered part of the industry.

- ☐ Market, Industry and Competitor

Correct choice. Lakeway is considered a competitor in some sense because customers may choose to rent a sailboat instead of purchasing one from Stay Afloat. Lakeway may also be a potential customer, buying their sailboats from Stay Afloat. Finally, Lakeway is also considered part of the industry.

Plas-teak manufactures "plastic" wood to make teak look-alike boat accessories. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

☐ Market

Not the best choice. Plas-teak is considered a supplier to sailboat manufacturers and is part of the industry.

☐ Industry

Correct choice. Plas-teak is considered a supplier to sailboat manufacturers and is part of the industry.

☐ Competitor

Not the best choice. Plas-teak is considered a supplier to sailboat manufacturers and is part of the industry.

Hatteras manufactures motorboats. Would they be considered the market for Stay Afloat Boats, part of its industry, or a competitor?

☐ Market and Industry

Not the best choice. Hatteras is considered an indirect competitor since customers may choose to purchase a motorboat over a sailboat. As such, they are also part of the industry.

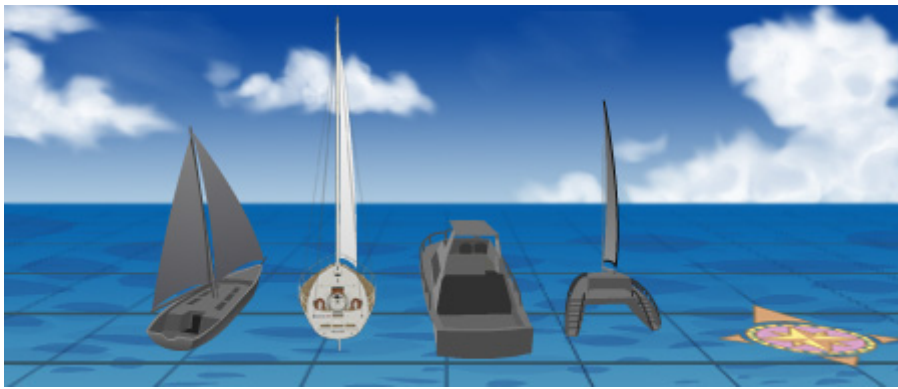
☐ Industry and Competitor

Correct choice. Hatteras is considered an indirect competitor since customers may choose to purchase a motorboat over a sailboat. As such, they are also part of the industry.

☐ Competitor and Market

Not the best choice. Hatteras is considered an indirect competitor since customers may choose to purchase a motorboat over a sailboat. As such, they are also part of the industry.

Key industry questions



The industry background provides your reader with information to understand the shape, size, trends, and key features of the industry, and to understand how your product or service will fit into the industry. The important questions that this section must answer:

- What are the products or services produced by the industry?
 - What is the range of products or services encompassed by this industry?
 - Is it an electronics industry or a television manufacturing industry?
 - Is it a food industry or a cereal-making industry?
- What is the size and shape of the industry?
 - What is its production capacity, its unit sales, and its overall profitability?
 - Is the industry spread out geographically or is it concentrated near the sources of raw material or near the end user for efficient distribution?
- What are the industry trends?
 - What is the predicted growth rate?
 - What new patterns of growth are emerging?
 - What factors might contribute to future growth?
 - Is the industry fragmented, consisting of many small competitors?
 - Are a few major competitors controlling the industry?
 - Is it moving quickly on the edge of technology, or is it a traditional industry offering stable products or services?
- What are the barriers to entry for this industry?
 - What resources, knowledge, or skills does it take to enter this industry?
 - Are there restrictive federal or international regulations, large capital requirements, or areas of sophisticated technical knowledge associated with providing the products or services?

In Private Communications Corporation's case, the industry background provides a brief history of the recent phenomenon of chat rooms on the Internet. To indicate the growth potential of the PCC business, entrepreneur Andy Laszlo describes the rapid development of the chat room and other possible niches, such as dating match services.

Private Communications Corporation's sample business plan

Industry Background

Starting in 1995, Internet usage began its rapid ascent in popularity, due in part to the introduction of user-friendly browsers—such as Netscape's Navigator software—which made accessing the World Wide Web (the "Web") easy and inexpensive. Other factors fueling the rapid growth in Web usage included the large and growing installed base of PCs, advances in the performance of PCs and modems, and improvements in network infrastructure. Web usage had grown from 1 million users in late 1994 to between 19 million and 38 million users by the end

of 1996. This rapid pace of growth was expected to continue, with projections ranging from 100 million to 170 million users by 2000.¹

Chat rooms were one of the earliest applications on the Web to gain popularity. Chat rooms were virtual communities where people could hold anonymous conversations with other participants by typing out their comments on their computer keyboards. Some sites were totally dedicated to chat, such as www.talkcity.com, while others offered separate chat rooms as part of their sites.

For example, the ESPN Web site offered a number of different chat rooms where participants could discuss specific sports-related topics with players or game analysts. Yahoo!, the Web's most widely used search engine, offered users the opportunity to chat about a number of general topics at any time, in addition to offering scheduled discussions with soap stars, authors, and other celebrities.

Many chat rooms also allowed users to move into "private chat rooms" to hold more private conversations. America Online (AOL), the largest online service, hosted more than 1 million hours of chat per day through some 14,000 chat rooms.²

Many Web sites were adding chat rooms in an effort to build a sense of community around their sites, which in turn was believed to be a key driver behind generating traffic at a site. In fact, studies demonstrated that adding a chat room to a Web site could boost traffic by as much as 50%, and users of chat rooms stayed on a site for over four times as long as non-chat room users.³ Many industry analysts projected that chat room usage could grow even faster than Internet usage. One leading analyst projected that there would be 7.9 billion hours of online chat by the year 2000.⁴

In addition to chat rooms, online match services had also become quite popular. These services enabled participants to submit personal profiles and search a site's database for the personal profiles of other participants to find potentially interesting partners. Some sites, such as www.match.com, were entirely dedicated to online match-making, whereas other sites offered match services as just one of many options, such as AOL's love@aol.com and Yahoo!'s "perfect match" personal classified service. PCC estimated that there were well over 200,000 users of online match services in 1997.

As interest in chat rooms and match services grew, so too did concerns over personal privacy. Databases housing confidential personal information stored on computer networks could sometimes be accessed using only a person's social security number or telephone number. As concern increased, a number of companies had emerged to sell products to improve computer and telecommunications security.

¹ International Data Corporation.

² *Business Week*, May 5, 1997.

³ *Business Week*, May 5, 1997.

⁴ *Advertising Age*, August 5, 1996.

Leadership Insight: Adapt to the market

In early 2009, we launched a new business in India. Our insight was, there was a big opportunity to disrupt the laundry services market. You see, if you're wealthy in India, you can afford every modern convenience. You've got great washing machines at home, you've got great ways to get clean clothes. If you're not wealthy, there are very affordable solutions available to you, village dhobis who will come pick up your clothes, wash them in large communal pools, beat them against rocks, and return them about seven days later at very low price points. Not always the cleanest clothes, and sometimes it takes a while, but it's affordable.

There's a big missing middle in between those two extremes. So we innovated. We introduced a kiosk-based format with an integrated washing machine and dryer that provides convenient, affordable, high-quality cleaning services.

The economics of this model would allow us to give the rig operator, the person working at the kiosk, really nice wages. We thought this would allow us to do a great job at attracting and retaining talent to allow the business model to work.

A few months into operations, we had a puzzle. We were paying people very high wages for the work we were doing, yet we had very low retention. People were leaving the rigs and we had to continue to hire and retrain, and the business model wasn't working.

Well, we worked with some local consultants who really understood the market, and they said, "The problem is you're applying a Western mindset to the Indian market. Pay people a fair wage, and then the extra wage you were going to pay them, break it into chunks. Give them a bus pass, give them a meal allowance, give them healthcare. Give them little bite-sized chunks that allow them to lead their life in a better way. That's what's going to work for this particular employee in this particular market."

We did that, and retention went through the roof, and the business model began to work really nicely. There were a couple of key things I learned from this. First, it's always important to remember that no matter how smart you are, a business plan that looks great on paper won't always work in the marketplace. To borrow an old military adage, no business plan ever survived its first encounter with the marketplace. You've got to get out there and test and learn to figure out how your idea is wrong.

The second thing to remember is to never discount the importance of expertise, people who understand a market, who know its nuances. It's very hard if you've got an orthodoxy, if you've got a way of looking at the world, to build a new market without an injection of some form of fresh thinking, because you'll bring your old mindset to the new business, and that can lead to all sorts of trouble.

If you remember those two things, you can dramatically increase your ability to innovate. And if you're ever in Bangalore, make sure you stop by the Village Laundry Service rig.

Sometimes a business plan on paper is no match for reality. Figure out how your idea needs to be adapted to the market.

Scott Anthony
Managing Director, Innosight Ventures

Scott Anthony is the Managing Director of Innosight Ventures, a consulting, training, and investment firm that works with Fortune 500

companies, startups, nonprofits, and national governments to improve their ability to create innovation-driven growth.

Previously, Scott was the President of Innosight's consulting arm, where he worked with Fortune 500 and startup companies in industries such as media, consumer products, investment banking, and health care.

Prior to joining Innosight, Scott was a senior researcher with Clayton Christensen, managing a group that worked to further Christensen's research on innovation.

He has written three books on innovation: "Seeing What's Next," with Harvard professor Clayton Christensen; "The Innovator's Guide to Growth," with Mark Johnson, Joe Sinfeld, and Elizabeth Altman; and "The Silver Lining: An Innovation Playbook for Uncertain Times."

He is a regular contributor to Harvard Business Online and serves as the editorial director of Strategy & Innovation, Innosight's biweekly publication.

Scott has a Bachelor of Arts in economics from Dartmouth College and a Master of Business Administration from Harvard Business School.

Activity: Get in on the coffee buzz

Practice your writing skills by creating an industry background section that is engaging and persuasive.

As the Vice President of Marketing for the Robusta Coffee Company, you are proposing to expand your current grocery store line of *robusta* beans to be served in niche coffee houses on college campuses. As you compose the industry background for the business plan, consider in what order you should answer key business questions.

Choose the first question you should ask when composing your industry background.

- ☐ What is the predicted growth rate?

Not the best choice. Begin this section with a broader view of the industry by asking about the background. Jumping into specifics too soon may lose a reader who is not familiar with the industry.

- ☐ What is the background of the industry?

Correct choice. This section should begin with a broad view of the industry to orient the reader.

- ☐ What are the barriers to entry for this industry?

Not the best choice. Begin this section with a broader view of the industry by asking about the background. Jumping into the barriers to entry too soon may discourage a reader who is not familiar with the industry.

- ☐ What is its production capacity and overall profitability?

Not the best choice. Begin this section with a broader view of the industry by presenting industry background. Jumping into capacity and profits seems premature at this stage.

Choose the second question you should ask when composing your industry background.

- ☐ What is the predicted growth rate?

Correct choice. Once you have reviewed the industry background, it is a good idea to provide details about the overall predicted growth rate. This section should begin to make the case for why you believe the market is favorable to your plan.

- ☐ Are there restrictive federal or international regulations?

Not the best choice. Presenting federal restrictions at this point interrupts your argument that this is a favorable market.

- ☐ What are the barriers to entry for this industry?

Not the best choice. Presenting barriers to entry at this point interrupts your argument that this is a favorable market.

- ☐ What is its production capacity and overall profitability?

Not the best choice. While you could answer this question second, it makes more sense to write about the financial upside first. Present your strongest arguments at the beginning of your report.

Choose the next question you should ask when composing your industry background.

- ☐ What resources, knowledge, or skills does it take to enter this industry?

Not the best choice. Present this information after you have presented information favorable to your proposal.

- ☐ Are there restrictive federal or international regulations?

Not the best choice. Presenting potential federal restrictions at this point interrupts your argument that this is a favorable market.

- ☐ What are the barriers to entry for this industry?

Not the best choice. Present points that support your proposal first. Then, follow up with any potential barriers and your plans to overcome them.

- ☐ What is its production capacity and overall profitability?

Correct choice. The answer to this question provides further support that the industry is favorable for you to begin a new business. Once you have provided evidence that the industry is healthy, you can next present any barriers or restrictions that you may face.

The competitive analysis

Competitors can be companies within the industry producing similar products or services, such as motorcycles within the motorcycle industry. Or competitors could be companies in rival industries producing products or services that fall into another industry category but that solve the same consumer problem—for example, if the problem being solved is finding a low-cost alternative to owning and driving a car, then owning and riding a motorcycle or taking public transportation would both be competitive solutions. The readers of your business plan will want to know who the direct and potential competitors of your business venture are because they represent a threat to the success of your venture. Understanding who and what your competitors are can reduce the risk of the failure of your business. Here are some questions your readers may ask:

- **Who are the competitors?** Think in terms of what companies solve the same problems for the customer. Identify the major competitors, their products and services, and their strengths and weaknesses. How much market share does each competitor control? What are their marketing strategies? What are their key success factors?
- **What differentiates your product or service from the competitors' products or services?** How are you responding to a customer need in a new, useful, and unique way?
- **How much of a threat are your competitors to your venture?** Do they enjoy strong brand recognition of their products? Will they aggressively block the entrance of a new rival? Will they recognize your special differentiating attributes and appropriate them for their own products or services?

Private Communications Corporation's competitive analysis identifies the competition and emphasizes PCC's competitive advantages—convenience, flexibility, strategic alliances, etc.

Private Communications Corporation's sample business plan

Competitive Analysis

Direct competitors

To the Company's best knowledge, there is only a single competitor, PeopleLink Inc., which is presently offering a similar product. PeopleLink tested its product in October 1996 with a beta test that lasted several weeks. The company is promoting its product through a Web site which will permit people to establish new accounts and receive an extension number online. It is not known whether (and if so, to what extent) the system will be modified now that the beta period has been completed. PeopleLink is positioning its product as a "call conferencing system designed for chatters." It is advertising a general release date of Winter 1997.

Although the Company has reason to believe that PeopleLink's price structure and marketing plans may be similar to those of the Company, PCC's Product is clearly distinguishable from, and more attractive than, PeopleLink's product. PeopleLink's product is essentially a private teleconferencing service. For two people to talk over their telephones using the PeopleLink system, they must both call into the same phone number virtually simultaneously (i.e., within a three minute window). Otherwise, they cannot be connected. Thus, *PeopleLink's system requires users to pre-arrange and coordinate beforehand each and every call they wish to make.*

In contrast, *PCC's product is flexible and convenient, permitting people to call one another whenever they desire, without the need to pre-arrange contact.* Customers have complete control over where and when they answer their phone, and can direct calls automatically to voice mail if they do not answer the call, or choose not to accept it. Management believes that its system is superior to that of PeopleLink and that its product differentiation will give the Company a material advantage over its competition.

Potential competitors

Generally, there are few natural barriers to entry (e.g., capital requirements, proprietary technology) that would prevent new market entrants from launching competing products. Consequently, prospective competitors will likely develop and promote competing products once they learn of the Company's success. Anticipating the threat of new market entrants, the Company is seeking to erect two strategic barriers to entry aimed at preserving the Company's competitive advantage. One barrier will arise through the formation of purposeful strategic alliances with those enterprises that maintain the gateways to chat rooms and dating match services, such as OSPs, ISPs, chat room Internet sites, and dating match services. The Company is presently negotiating advantageous revenue sharing agreements with several potential partners, whereby the partners will promote and build services around the Company's product on an exclusive basis. The Company believes that these exclusive arrangements will effectively preclude potential competitors from reaching the Company's target markets in a cost-competitive fashion. Additionally, the Company is seeking to establish a second barrier by creating a brand identity for its Product so that consumers will come to recognize the Company's brand as a reliable service that ensures high quality, convenient telephone communications with complete privacy and anonymity.

Internet telephony

Internet telephony is an emerging technology designed to permit people to make long distance phone calls, using either their personal computers or ordinary telephone handsets as receivers and the Internet as the communications channel. Generally, firms developing Internet telephony intend that the technology will provide an alternative to ordinary long distance telephone service, without any long distance charge or for a charge substantially lower than the customary charge. Moreover, Internet telephony may support anonymous long distance telephone services, and some chat rooms are seeking to incorporate Internet telephony features into their programs. To date, consumers have failed to embrace the technology. Many agree that the voice transmission is poor and, in most cases, is not real time. Furthermore, most Internet telephony software applications require that callers have compatible hardware and software to use the system. In short, the technology is newly emerging, and the Company does not believe it poses a competitive threat in the immediate near term. However, it is possible that, should the technology improve and become a part of the PC mainstream, the technology could pose a substantial competitive threat to the Company's business.

The market analysis

In this section, focus on your target market, that group of people who will choose to purchase and continue to purchase your product or service because you solve a problem or meet a need for them. Here is where you answer the questions: Is there an opportunity within this market? Can we capitalize on this opportunity?

Your reader will be interested in the site of opportunity; therefore, you should include the following information:

- **An indication of how large the market is and how fast it is growing.** These are two key considerations for any business looking to enter a market or market niche. Is there room for your presence in that market? Can the market expand to include you? Will market demand for your products or services grow? For example, the market for video rental retailers may be peaking as new technology, such as DVDs, satisfies the customer demand for home entertainment. As another example, consumers are finding the convenience of shopping online attractive so that e-

commerce is booming, and the opportunities for finding profitable niches selling on the Internet may prove to be extremely lucrative.

- **A definition of your target market.** Who are they? Where are they from? What characteristics describe them? Consider the market from different points of view such as geographic location or segmentation (national, state, suburban, city, neighborhoods), demographic features (age, gender, race, income level, occupation, education, religion, etc.), and behavioral factors (customers' attitudes and responses to types of products).
- **An explanation of why customers in the target market will purchase your product or service.** What are your solutions to customer problems? What customer pain will your product or service ease? Do you have a better-designed pillow to ease back pain? Or do you have a way to filter out banner ads on the Internet, easing online irritation? Emphasize the reasons customers will buy your product. What are the benefits for those buyers? How will your customers differentiate your product from your competitors'? For example, why would a customer purchase books at a local bookstore rather than from an online book retailer?

Private Communications Corporation's market analysis first defines the overall market for its business as "online and Internet communications" and describes the market size.

Next, Laszlo focuses on the target segment of the market—"users of online chat rooms and dating match services"—and shows what the market need or opportunity is—privacy in telephone communications.

Private Communications Corporation's sample business plan

Market Analysis

Market definition

PCC competes in the arenas of online and Internet communications that facilitate the creation of personal relationships and/or allow for interactive communication between users. With proprietary on-line services, these arenas might include chat rooms, bulletin boards, and e-mail. On the Internet, they include Internet Relay Chat, e-mail, and various Web sites. The WWW sites of particular interest include those dedicated to real-time chat, those that support chat as an additional feature of the site, and those that serve to create online matches between users.

Total market size

Whereas the Web was essentially a novelty in the consumer marketplace just a year ago, the penetration of the Web during the last 12 months has been extraordinary. Although estimates vary, most authorities agree that the market consists of between 15 and 35 million Internet users. Where these users go, what they look for, and how long they spend on the Web are open questions that no one has yet been able to satisfactorily answer. Whatever the exact numbers and habits may be, there is almost unanimous consensus that the Internet is here to stay, and that the "cyberspace" it harbors will become an integral part of modern day communications and social interactions as we move into the 21st century.

Proprietary online service usage

While there is considerable variance in the estimated numbers of Internet users, usage of proprietary on-line services is more widely known through posted subscribership. Currently, the combined customer base of America Online, CompuServe and The Microsoft Network, the three largest OSPs, is in excess of 12 million. As for actual usage, AOL's may be fairly typical of the other services—40 million hours per month generated by its over eight million customers. All

three OSPs offer proprietary content available only to subscribers, as well as complete access to the World Wide Web.

Target Segment of the Market

The initial target for PCC's Product are users of online chat rooms and dating match services. These consumers share the desire to communicate with new acquaintances, and appreciate being able to remain anonymous and "selectively reachable" unless or until they feel the need to raise the level of intimacy.

Market need

By working longer hours, marrying later in life, and frequently moving to new locations, people have found it more difficult to build local social networks in their communities. At the same time, the Internet has made a virtual community of the entire world itself, so that people from different countries and cultures can now find and enjoy relationships with others who share their interests. Chat room discussions, computerized bulletin board postings, and online personal ads and matching services are all utilized as a method to meet people and build relationships. And yet, to move the relationship to a more personal and intimate level, most people still feel the need to step away from the new technology and move their relationship to an old technology—the telephone. Taking that step, however, currently requires one party to abandon one of the most striking and comfortable features of the Internet—anonymity.

As the consumers' embrace of the Internet and newly developed telecommunications media has grown, so too have their concerns over privacy and confidentiality. The Internet has made accessible powerful databases that contain some of the most private information about individuals. With just a phone number, even a lay person can learn volumes of personal data about somebody, while malicious hackers or stalkers can arm themselves with enough information to become extremely threatening or dangerous.

Estimated segment size

The market opportunity for PCC's communication services depends heavily on how one estimates current Internet and on-line services usage in general, and the use of chat room and dating match services in particular. AOL estimates that 40% of its users visit its proprietary online chat rooms, a number that is likely similar for the other major services. A conservative estimate of the non-OSP Internet users who access chat rooms or utilize dating services is 10%. This yields a potential target market of 4.8 million OSP users, and 2.3 million ISP users (using a conservative 35 million Internet users minus the 12 million OSP users) for a total of 7.1 million target customers. With the current growth of Internet usage estimated at 50% per year, this number will reach over 20 million by 2000. Furthermore, chat seems to be growing even faster than the Internet as a whole, as sites institute chat rooms as a way to create a "community" of regular visitors. Even such commercial sites as Budweiser have recently added chat rooms as a way to draw visitors. One analyst at Montgomery Securities estimates that by 2000, there will be 7.9 billion hours of online chat (*Red Herring*, July 1996). Dating services are also growing, with the largest, Match.com, claiming 100,000 members. Assuming they have 50% of the market, this segment alone currently has 200,000 highly qualified target customers.

Key Idea: Purpose of the marketing plan

Key Idea

You've examined the business environment. You've studied the competition. You know your target market. You've discovered the opportunity. You have a product or service to sell. How do you bring your product and your market together? How can you encourage customers to buy from you? Typically, the most effective way is to develop, act on, and monitor a marketing plan. The marketing plan describes how you intend to sell your product or service, how you will motivate the customer to buy. The purpose of developing and including the marketing plan in the business plan is twofold:

- The process of designing a coherent marketing plan that is an integral part of the overall business plan will help you and your team pretest ideas, explore options, and determine effective strategies for the company's success.
- The result of a well-conceived and coherent marketing plan will convince your business plan reader of your own competency.

The plan should reflect the mission and basic business philosophy of the company. It should also incorporate and use the results of your market research.

What separates successfully implemented ideas from just good ideas that go nowhere?

Develop the marketing plan

To ensure that your marketing plan is coherent, that it pulls together all the elements of the business opportunity and philosophy, begin the process of developing your marketing plan by looking at the key factors that affect the marketing of your product or service.

- **Concentrate on the opportunity**—the customer problem that your product or service is solving. You may be fixing a weakness in the competitors' services by offering customized service or guarantees on products that aren't available elsewhere. You may have discovered how to make low-fat foods taste like high-fat foods. As you develop the specific marketing strategies, keep in mind the opportunity in terms of the customer.
- **Review your marketing objectives.** At what level of sales will you reach the breakeven point? When do you anticipate reaching that point? How long will it take to reach the next sales milestone? For example, your objectives might be to reach the breakeven in six months from the time of initial sales, to achieve a growth rate for sales of 10% per year, and to capture 10% of the target market in five years. What strategies can you design to fulfill these objectives?
- **Focus on the buying behavior of the customer.** When, where, why, and how do they buy this product or service? What needs are being fulfilled for them? What factors are important to the consumer in choosing this type of product or service (for example, price, quality, value, benefits, etc.)? For a busy customer, service and time savings may be more important than the lowest price.
- **Determine the value of each customer to your business.** Weighing the cost to acquire a customer with the long-term value of that customer helps you decide on the appropriate marketing strategies to use. For example, if each customer is worth winning and keeping, then the more expensive marketing strategies of relationship-oriented direct sales might be worth the cost. If, on the other hand, you are trying to reach a wide range of customers, then less expensive

strategies, such as mass mailings of sales promotions, can be more effective. To determine the value of a customer, consider the following questions:

- Are you building an annuity business, such as magazine subscriptions that continue for years, or does your business provide a quick, one-time service?
- Do customers buy your product often as a consumable or inexpensive entertainment, or is your product durable, only purchased occasionally during a lifetime?
- Do you need to build brand loyalty, or is your product/service the only one that will fill the customers' needs?
- Is the process of buying the product/service relationship-oriented, requiring direct sales, or is it transaction-oriented and easily adapted to direct mail marketing or online selling?

Develop marketing strategy mix

The marketing strategies describe the way your marketing objectives will be achieved. Your strategic choices define how you will make the target market aware of your product, how you will motivate the customer to purchase your product, how you will build customer loyalty for your product, and how you will achieve the projected return on sales. Your marketing strategies determine the way you position your product in the market relative to your competitors' products. The strategies, or marketing mix, will be the most effective combination of the classic four Ps of marketing—product, price, place, and promotion—for your business. These four components of a marketing plan are:

- **Product/service.** Make sure that your product or service is consistent with both your company philosophy and the target market needs. For example, if the company philosophy is to provide the highest quality accounting services, then those services must be the most accurate and comprehensive available to wealthy customers who require accurate and comprehensive services for their financial portfolios.
- **Price.** At what price point will you offer your product or service? Will there be an established price, or will it be tiered or variable depending on consumer demand? Your pricing decisions will depend, on the one hand, on the price sensitivity of your market and the market's perceived value of your product. On the other hand, total costs and required profit margin also affect the price of the product. Pricing is difficult to predict. You will have a range of prices available determined by costs and expected contribution margins, but within that range, price adjustments can occur in response to consumer demand.
- **Place.** The term **place** indicates the physical movement of products—how the product will be transported from the plant to the end user. What channels of distribution will be used? How will the product be merchandised? In what kind of retail store or location? These decisions depend on the type of product, the costs of distribution, the customer needs or demands, and they should be made in conjunction with other operating and marketing considerations.
- **Promotion.** Promotion involves creating consumer awareness of the product. It is the communication function of marketing, communicating with the customer about the benefits of the products. Promotion includes activities such as these:
 - **Word of mouth.** This selling tool is the cheapest and most effective kind of promotion—satisfied customers spreading the word. However, it is unpredictable and difficult to control. If the word is positive, then your sales will increase, but a negative message is difficult to overcome.
 - **Sales promotion.** In this case, you control the message by spreading the word to the consumer through coupons, samples, and demonstrations. A relatively low-cost program, sales promotion can reach a wide audience.
 - **Direct sales.** Direct selling is more expensive than the general approach of sales promotions, but it is an important tool for developing relationships with customers while

motivating them to buy. The tactics used in direct sales range from individual sales calls to mass telemarketing.

- **Advertising.** Advertising influences the consumer through paid persuasive messages delivered to the target market. This sales approach can be expensive, but the payoff is successfully building a brand image and brand loyalty.

Depending on your resources and whom you are trying to reach, select the interrelated mix of marketing strategies appropriate for your product or service and your target market.

Your marketing plan should fit with all the other pieces of the business plan, and it should show how the specific marketing objectives will be achieved. The marketing plan should also be a dynamic plan. Use it to monitor progress and modify it as needed to reflect changing circumstances.

Private Communications Corporation's sample business plan

Marketing Plan

PCC's marketing plan is based upon the recognition that the customer may not always be the end user. The end user is the individual who is using the Internet or OSP to forge relationships that he or she wishes to take to a more personal level, but who is still concerned about anonymity or security. The customer, however, in some cases is the site or organization that provides the means for the forging of the end user's relationship. By encouraging the promotion of the Product by ISPs, OSPs, chat room sites, and online dating services, PCC gains access to their customers, who represent highly qualified prospects for the Product. This gives the Company two benefits: a less expensive and more efficient way to reach the end user; and a lock on the primary distribution channels that will help erect barriers to entry.

Positioning

To site partners, the Company is positioning the product as a value-added service for their members that can also significantly enhance their revenue stream. With ad revenue still a far cry from that of traditional media, and with the cutthroat pricing of the OSPs and ISPs, many service and content providers are hungry for additional revenue, and are actively seeking partners that can provide it.

To end users, the Company is positioning the Product as a means to preserve one's anonymity, and thus guarantee security, while furthering relationships with new acquaintances encountered on-line. The Product facilitates these relationships without the pressure of a premature commitment, and without requiring the user to make a snap decision about the risk of revealing personal information to a stranger. It also gives parents a safe way to allow their children to engage in the same type of off-line personal relationships with new friends made online, without the risk of encountering adults with questionable intentions.

Pricing

The product is priced at only a moderate premium over standard long-distance telephone service, with a per-minute cost of between \$.59 and \$.79 incurred by the receiver of the call. This price is low enough that the customer should not feel restrained to release his or her number to prospective callers, and will not constantly be "watching the clock" while using the service.

There are monthly subscription plans that offer free blocks of time, discounted calls, and free access to premium features. Monthly plans will encourage regular usage of the service, as customers are likely to use the service at least enough to consume their "free" time. PCC is

pursuing a value pricing strategy, because it is the best way to create a community of long-term users who will incorporate the service into their daily lives instead of viewing and using it as a luxury entertainment product.

Remuneration to partners may take the form of revenue sharing, payment of a bounty for new subscribers, or guaranteed levels of paid advertising.

Customer value proposition

PCC is offering customers a superior benefit at a low cost. With the Company's service, customers can receive phone calls at their preferred location, on a schedule of their own convenience, with the flexibility to change or cancel their number at any time, and remain completely anonymous—all for nearly the same cost as making a standard long-distance telephone call. At the same time, these phone calls fill a need similar to that provided by chat rooms, but offer the additional value of being a more intimate and interactive form of communication. At the other end of the live/interactive spectrum, existing telephone services such as psychic talk and romance chat are significantly more expensive to use, often costing over \$3 per minute.

Strategic site and online service provider partners realize value by incurring a significant revenue stream at no, or very little, direct cost. Additionally, because site users will recognize value in the Product, hosting and promoting the Product becomes a means of differentiation for the site or service provider.

Distribution

The Product is targeted at Internet and online users. Therefore the primary means of distribution will be via the directReach™ on-line informational and registration site. Users will be drawn to the site via banners and partner links. Other methods of reaching end users may include offering the Product in conjunction with a site's primary service, so that customers would, for example, obtain a directReach™ account when they establish a dating account or open an Internet access account with an ISP.

Customers are also able to join the service through a toll-free automated phone line. People wary of paying by credit card over the Internet could use this method, as could those drawn to the service via non-Internet means. In addition, all people calling a directReach™ member will be given the option of learning about the service, and becoming a member themselves, at the time they place their call.

Advertising and promotion

Advertising and promotion will be a three-phase process, involving public relations, Web and print advertising, partner acquisition, and brand imaging. Outside advertising and PR agencies will be utilized as much as possible in order to further ensure the creation and presentation of an overall coherent and professional message.

Phase I Phase I is expected to last 10 to 12 weeks and involves acquisition of customers through print and Web advertising. Web banner ads will be placed on sites that offer chat services, with a click-through link to the directReach™ Web site. The directReach™ home page will present information about the service features, usage, and benefits, as well as an online registration form. Ads and site copy will strive to educate readers on the importance of maintaining personal security by not giving out phone numbers to strangers and will stress the

three key benefits of the service. Moreover, the Internet ads will extol the excitement gained by moving an online chat to an off-line phone call.

PR is also a major emphasis during Phase I, with special attention placed on targeting Internet publications and mainstream press with information about PCC's unique service. Press kits with promotional material and free trials of the Product will be sent to key reviewers and writers.

Phase II Phase II will begin concurrently with Phase I and involves acquisition of strategic partners. Primary targets are those establishments that already have relationships with the target user: OSPs, ISPs, and sites hosting chat rooms and dating match services. Since potential partners may want proof of the concept before engaging in an agreement with PCC, Phase I must successfully demonstrate the reliability of the Product.

Phase III Phase III begins immediately after the successful implementation of Phases I and II and involves an emphasis on the branding of the service, through newspaper and Internet advertising, billboard displays, and additional generation of media coverage. This type of promotion will be ongoing, with the primary purpose of strengthening the brand in order to build a solid customer base and deter the entrance of potential competitors. Significant resources will also be dedicated to building customer loyalty, through live operator service with well-trained and professional customer service representatives; promotions and incentives for frequent users; and new and customized calling services. It is important that the brand consistently conveys a message of legitimacy and professionalism, from advertising to customer service to product reliability.

Operations plan overview



The operations plan gives an overview of the flow of the daily activities of the business and the strategies that support them. There should be enough information to show the reader that you understand and have planned for the daily execution of the business, but the plan should not be too technical or so comprehensive that the reader is either unable or unwilling to plow through it. The primary purpose of the operations plan section is to show that you are focused on the critical operating factors that will make the business a success.

Operations is the work of the business; it is the transforming of the ideas or the raw materials into products or services to be sold to the customer. The operations plan has to be as dynamic as the process of production itself; to continue as a vital guide for the action of the company, this internal plan can never lie quietly on some dusty shelf. It should be developed and used and modified as often as needed.

Breakeven point

The operations section of the business plan should give the reader the critical success factors affecting *how* the company creates value for the stakeholders of the business. The most important of these factors is the **breakeven point**; that is, the point at which unit sales equal operating costs. The breakeven point determines how many units of the product must be sold to break even, to cover the cost of production, so that the following units will produce a profit. It identifies the point at which the business will begin to make money.

In this example, the breakeven point is at 150 units sold. After that point, the business will have more revenues than operating costs, a major step toward profitability.

Key success factors

Other key success factors might include:

- **Advantages in sourcing materials.** You may have acquired the rights to inexpensive raw materials or discovered a cheaper way of transporting the goods to your facilities. For example, you might have made a deal with the United States Post Office or the local phone company to deliver your message to every household in a certain area.
- **Technological innovations in the manufacturing or distribution process.** Technological improvements in manufacturing or in transferring information and data or in organizing distribution systems can lower costs or increase productivity. For example, you may be able to achieve efficient distribution through computerized warehouses communicating with a fleet of delivery trucks.
- **A favorable geographical location.** Depending on the type of business, location can mean success or failure—proximity to customers, competitors, suppliers, labor supply may be the critical variables. For example, a good location for a food processing plant would be near the growers who raise the crops, and a good location for a computer games arcade might be near a local high school or college.
- **Access to skilled employees or inexpensive labor.** Can you offer recent college graduates internships that would provide the company with inexpensive skilled labor and a pool of experienced employees in the future? Can you provide in-house training to ensure the skilled work force you need? Can you draw from a large labor pool willing to accept lower wages?
- **An effective pricing strategy.** You may be able to adjust pricing to the needs of individual market segments or match high prices with unique service features. With the technological efficiencies gained in production, you could offer lower prices and still maintain profitable margins.

Remember that your presentation can be simplified and clarified by using detailed flow charts, process descriptions, etc., both in the main section and as attachments. Visual aids such as charts, graphs, and tables are useful in presenting complicated information clearly.

Activity: When will they see profits?

Show your understanding of the breakeven point and other key success factors in the following scenario.

Stay Afloat is considering expanding its operations and marketing presence in Japan. You are responsible for drafting the business plan for this initiative.

You've decided that the first key success factor you need to highlight is the breakeven point. In Year 1, operating and marketing costs in Japan are \$250,000; sales in Japan are \$120,000; and the net profit is negative \$130,000. In Year 2, operating and marketing costs in Japan are \$200,000; sales in Japan are \$300,000; and the net profit is \$100,000. In Year 3, operating and marketing costs in Japan are \$150,000; sales in Japan are \$400,000; and the net profit is \$250,000.

Which year do you anticipate that the initiative will break even?

☐ Year 1

Not the best choice. The accumulated profit from the new venture in Japan in Year 1 is not equal to or greater than the accumulated investment.

☐ Year 2

Not the best choice. The accumulated profit from the new venture in Japan in Year 2 is not equal to or greater than the accumulated investment.

☐ Year 3

Correct choice. During Year 3, the accumulated profit from the new venture in Japan equaled that of the accumulated investment.

Your research into the boating market in Japan shows that Japanese consumers typically take several months to make a purchase decision. During that time, they attend local boat shows, visit manufacturers' showrooms, sign up for guided tours, and talk at length with manufacturers' local design staff about possible customization options.

Which of the following key success factors best captures this information?

☐ Proximity to customers is key to higher sales volumes.

Correct choice. The manufacturers with the ability to show their boats locally, offer tours, and provide consultation services seem to generate higher sales volumes.

☐ Pricing is key to higher sales volumes.

Not the best choice. Although pricing may also be key to higher sales, no research on pricing has been provided.

☐ Customization is key to higher sales volumes.

Not the best choice. Although being able to customize purchases may be key, the research shows that being able to discuss customization options with a local designer correlates with higher sales.

You've determined that a local marketing and operations presence is necessary to compete effectively in Japan. However, the cost of labor, materials, and advertisements are much higher in Japan than in the other geographical markets that the company operates in.

Based on this information, what third key success factor do you need to discuss in your plan?

☐ A local marketing presence will reduce the risks associated with the higher production costs in Japan.

Not the best choice. Marketing costs in Japan are also higher than in other geographical areas the company operates in, adding to the risk of the venture.

☐ The financial projections are based on being able to sell at a higher price in Japan than in current markets.

Correct choice. Since production and marketing costs will be higher, having the correct pricing strategy is critical to the company's ability to net a profit in Japan.

☐ The high cost of labor in Japan means that you may need to relocate some of your existing workers to Japan.

Not the best choice. The cost of labor in Japan likely reflects a higher general cost of living in the region. If you relocate some of your workers from a less expensive region, you'll need to pay them wages comparable to those in the Japanese labor market.

Describe each member

“ I invest in people, not ideas. ”
–Arthur Rock, venture capitalist



The importance of the team

Every investor knows that it's the management team, the people, that make a business work. You and your team are the glue that brings the pieces together into a finely formed, dynamic unit. Without the right people, no unique opportunity will move from concept to reality. So, the management summary is an important section of the business plan—one that many of your readers will turn to first.

Describe each member of the management team

The reviewing committee members may already have some acquaintance with you, and, for all types of readers, your résumés will be included in an attachment to the business plan. But here you should answer the more pointed questions those readers—whether they be potential investors, lenders, or internal reviewers—will ask:

- **Where have they worked?** What has been their career path, inside the company or beyond? Readers want to know how much experience team members have in the company, in the industry—or related industries—and who their contacts are. Do they have experience that relates directly to this proposed business?
- **What have they accomplished?** What are their achievements? Do they have a record of successfully completing projects? In other words, have they shown that they can take an idea and produce results?
- **What is their reputation in the business community?** Are they known to be idea people who rarely settle down to finish one project before being diverted by another? Do they have a reputation for integrity, living up to their claims? Are they known to be hard working and dedicated to their work?
- **Are they realistic about the business's chances for success?** Are they capable of recognizing risks and responding to the problems that will inevitably occur? Are their critical assumptions viable? Who on the team will be robust in his or her vision? Who will give the word of caution?
- **What knowledge, skills, and special abilities do they bring to the business?** Do they have a balanced blend of experience, a range of skills, a depth of knowledge? Is the team complete, or do they need to bring someone else in with additional skills or attributes?
- **How committed are they to this venture?** Will they stick with it during the rough times? Have they worked together before on projects? A newly formed collection of people that hasn't been tested as a team is generally considered a more risky proposition than a team that has worked together in the past, a team that has overcome internal conflicts and external problems to attain a defined goal.
- **What are the motivations of each member of the team?** What do they hope to achieve? Is each member of the team there by chance or by choice? If they choose to be on board, then what benefits do they hope for? If they are simply assigned members, what motivation do they have to participate and strive for team success?

Key Idea: Describe the team

Key Idea

The management summary is your chance to let the reader know how each of the team members will work to form an effective and successful team, which, in turn, will result in a successful and profitable business. Show how this is the right team to manage the risks and to capitalize on the opportunities by affirming the team's strengths. Describe how the skills, knowledge, and experience of the individual team members balance the team as a whole.

In this section you can also acknowledge and address the team's perceived weaknesses. Recognize the management gaps that may exist, such as technical skills or marketing experience. Let the reader know how you plan to deal with these weaknesses or gaps by training a team member, hiring a new person with the needed skills, or contracting the services of a consulting firm.

Finally, you'll want to express the team's management philosophy. Develop a management philosophy that provides guidelines for the behavior and decision-making process of each team member. A clear statement of management philosophy offers an expression of company values and serves as an example of the team's cohesiveness.

One of your organization's greatest strengths is your management team. Learn how to highlight their experience and philosophy to reinforce your business plan.

Key Idea: Consider a reader's point of view

Key Idea

Different readers of your business plan will have different points of view as they approach the financial plan:

- The investment committee member reviewing your proposal wants to know whether the venture can achieve the company's hurdle rate (the minimum rate of return expected of all projects).
- The investor considering buying into the venture wants to know what kind of return on investment the business will achieve.
- The lender deciding whether to lend money wants to know about the borrowing capacity of the company, its ability to service debt.
- Perhaps most important, you need to know whether your financial objectives will be achieved, whether all your planning and efforts are going to pay off in the end.

The financial plan is a critical section of your business plan because it translates all the other parts of the business—the opportunity, the operating plan, the marketing plan, the management team—into anticipated financial results.

This is where you show your readers the current status and future projections of the company's financial performance. The financial picture you paint here represents your best estimate of the risks involved and the return on investment, the tangible evidence of commercial success.

The financial plan is a critical section of your business plan. Learn the keys to adapting the plan for your specific reader in order to achieve maximum impact.

Capital requirements

Whether your project is a business expansion or a new venture, the readers of your business plan will want to know what capital investment is required.

How much money do you need to raise, how much do you expect from them, and how do you intend to use the money?

For Private Communications Corporation's financial plan, Laszlo opens by stating the capital requirements—how much money they are seeking—and how the money will be used (for system development, marketing expenses, partner acquisition programs, etc.).

Private Communications Corporation's sample business plan

Financial Plan

Capital requirements

The Company is presently seeking to raise the sum of Two Hundred and Fifty Thousand Dollars (\$250,000). Based on current projections, the Company believes that these proceeds, together with Eighty-Four Thousand Dollars (\$84,000) the Company has already raised in its initial round of financing, will be sufficient to achieve its business plan. After the first six months of operation, the Company will be able to fund all operation, marketing, and product development costs internally.

The Company intends to use the \$334,000 during the first six months of operation, as shown below:

- \$45,000 for system development and programming
- \$200,000 for marketing expenses
- \$89,000 for working capital to fund future product development, promotion, and partner acquisition programs

Summary financial projections

The financial plan portrays a projection of first year sales of \$11.74 million, gross margins over 60%, and net margins of approximately 42% before tax. The Company expects to be profitable after the first six months of operation, and remain profitable from that point on. Other expenses are budgeted as a percentage of revenues based upon similar industry ratios. Given these projected numbers, the Company anticipates being profitable and cash flow positive within six months of Product launch. The important results of the financial forecast are summarized below:

	1997	1998	1999	2000	2001
Revenue (\$)	11,744,628	33,826,076	39,624,551	43,587,006	47,945,706
Operating profit (\$)	4,923,821	14,549,719	16,963,578	18,723,261	20,660,335
Operating margin (%)	42%	43%	43%	43%	43%
Net income (\$)	4,922,779	14,547,754	16,963,451	18,723,180	20,660,302
Net margin (%)	42%	43%	43%	43%	43%

Assumptions

The financial projections are based upon current industry estimates of Internet and proprietary OSP subscribers, primary and secondary market research data, and estimates of the Product's market penetration and sales growth. More detailed information on the assumptions can be found in the attached statements, which have been prepared for years 1997 through 2001. These statements include projected income statements, balance sheets, and cash flows. See **Table A** in the **Sample Business Plan** under Apply/Tools for a detailed breakdown of assumptions.

Revenues include those resulting from registration of new accounts and sales of additional calling minutes. Cost of goods sold, while calculated on a per-minute rate, includes all services associated with buying, selling, and billing the customer for long distance time, as well as all fees and charge-backs associated with credit card billing. Marketing and sales expenses include costs associated with advertising, PR, and promotions, as well as those from revenue sharing with strategic partners. The company will not carry any inventory, and will operate with minimal overhead, due to the nature of the business.

Financial Projections

In this section, you should highlight and explain the importance of the significant figures from the pro forma income statements—revenue, operating profit, operating margin, net income, net margin—over a period of three to five years. State when you expect the company to become profitable.

The pro-forma financial statements are projected statements—what you believe will be the future income. They represent your most honest analysis of the financial progress of the business. The income statement, also known as the profit and loss statement, shows the profit margins. The balance sheet provides a picture of the business's assets, equities, and liabilities at a specific point in time.

In addition to the income statement summary, most of your readers will be concerned with the cash-flow statement. Including a summary of the flow of cash, showing the times of peak need and peak availability, will demonstrate that your plan has accounted for the variability of cash flows.

In the following example, Private Communications Corporation's cash flow is presented on an annual basis, but you may have to break the analysis down to a quarterly or monthly basis.

Assumptions

State your assumptions about the estimated industry and market growth rates. Then give your assumptions about the internal variables of the business, such as the variable and fixed costs, growth rate of sales, cost of capital, and seasonal cash flow fluctuations.

Your assumptions are the underpinning of your financial plan. They should be realistic, within the bounds of industry experience. Include a more detailed set of assumptions as an attachment. Be sure to document your assumptions. Give your sources, evidence, expert opinions, and your own logic for choosing a certain growth rate or cost for distribution.

Private Communications Corporation's sample business plan

Assumptions

The financial projections are based upon current industry estimates of Internet and proprietary OSP subscribers, primary and secondary market research data, and estimates of the Product's market penetration and sales growth. More detailed information on the assumptions can be found in the attached statements, which have been prepared for years 1997 through 2001. These statements include projected income statements, balance sheets, and cash flows. See **Table A** in the Sample Business Plan under Apply/Tools for a detailed breakdown of assumptions.

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Breakeven analysis for sales

The breakeven point is the time when the business is neither losing nor gaining money. This is the pivotal moment when the business begins to be profitable. Will it take six months or two years for the business venture to reach its breakeven? The reader of your business plan will want to know when and at what level of sales the breakeven point will occur.

The breakeven point for sales is calculated as follows:

where fixed costs are those costs that don't change as sales go up or down (for example, rental of facilities) and variable costs vary in proportion to sales (for example, raw materials). This calculation could be included in the attachments.

Probability of risk/reward

Risk is the uncertainty of the future. Even the most careful planning and judicious assumptions cannot predict what will happen tomorrow or next month or next year. Planning at all levels—understanding the business environment, developing the operations plan and the marketing plan—is the best way to reduce a venture's level of exposure to risk, but risk can never be completely eliminated.

There is real risk in any venture—the risk of failure and the possibility of reward. Your readers will want to know your assessment of the level of risk. They want to know how you plan to avoid the risk of failure and how you plan to increase the chances for success. A risk/reward probability graph can quickly show your readers the likelihood of failure, of achieving the predicted levels of return, and the chance of phenomenal success.

The risk/reward graph shows investors the probability of possible outcomes. The risk of losing everything is very low, as is the chance of a very high return. The most likely outcome is indicated by the area under the bell curve, ranging from an acceptable (perhaps) return of 15% to the most likely return of 30% and a possible 45% rate of return. Depending on the fundamental riskiness of the venture (drilling for oil is riskier than opening a retail clothes store), the investor will require different rates of return to balance the possibility of loss (an investor investing in oil drilling would expect a high return to compensate for the risk of loss).

Activity: Deal or no deal?

You have \$100,000 to invest in a new business. How much risk are you willing to take? (Note: A distribution graph is derived from historical data. A "normal distribution" such as the one shown here results when the data shows an equal chance of gain or loss at any given point in time. In industries with a high chance of success, the distribution curve would peak further to the right; in industries with a poor chance of success, the curve would peak further to the left.)

You use historical data to create a risk/reward graph to help you invest your \$100,000. On one extreme end of the graph is the possibility that you will lose \$15,000. On the other extreme end of the graph is the possibility that you will make \$75,000.

If these are the extreme ends of the risk/reward graph, then what would be the average return on your \$100,000 investment?

☐ \$80,000

Not the best choice. The average return would not exceed one of the extreme ends of the risk/reward graph; it would lie in the middle.

☐ No return

Not the best choice. No return on your investment is too close to one extreme end of the risk/reward graph (losing \$15,000). The average return will be in the center of the graph.

☐ \$30,000

Correct choice. If one extreme end of the graph is a loss of \$15,000 and the other extreme end is a gain of \$75,000, the midpoint between these extremes would be \$30,000. This is the average return.

On one extreme end of the risk/reward graph is the possibility that you will lose \$15,000. On the other extreme end of the graph is the possibility that you will make \$75,000.

How likely is it that the return on your investment will be less than \$15,000?

☐ Not very likely

Correct choice. The range of possible returns on the graph are between a loss of \$15,000 and a gain of \$75,000—that is, a range of \$90,000. \$15,000 represents about 16% of this possible range, so making a return of less than \$15,000 on your investment is not very likely.

☐ Very likely

Not the best choice. The range of possible returns on the graph are between a loss of \$15,000 and a gain of \$75,000—that is, a range of \$90,000. \$15,000 represents about 16% of this possible range, so making a return of less than \$15,000 on your investment is not very likely.

On one extreme end of the risk/reward graph is the possibility that you will lose \$15,000. On the other extreme end of the graph is the possibility that you will make \$75,000.

How likely is it that the return on your investment will be less than \$60,000?

☐ Not very likely

Not the best choice. \$60,000 is fairly close to the extreme positive end of the graph, \$75,000. Therefore, it is very likely that the return on your investment will be less than this.

☐ Very likely

Correct choice. \$60,000 is fairly close to the extreme positive end of the graph, \$75,000. Therefore, it is very likely that the return on your investment will be less than this.

Financial returns

Investors also want to know the expected financial returns—typically either the return on investment (ROI) or the internal rate of return (IRR). For an internal project, the financial return should exceed the company's hurdle rate—the minimum rate of return expected of all projects. For a risky start-up business, investors generally require a higher return to compensate for the higher level of risk of loss.

To calculate the ROI, divide net operating income by total investments. For example, $\$45,000/\$300,000 = 0.15$ or 15% ROI. The higher the ROI, the more efficient the company is in using its capital to produce a profit.

To calculate an IRR of 50%—the return an investor might expect for a risky investment—use the following formula:

$$FV = \text{Investment} \times (1 + 0.5)^n$$

where FV is future value, investment is the dollar amount of the investment, and n is the number of years to receive the return.

The complete set of financial information—assumptions, income statements, cash-flow statements, balance sheets, statement of sources and uses—should be included in the attachments.

Purpose of attachments and milestones

Overview

This section provides interactive exercises so you can practice what you've learned. These exercises are self-checks only; your answers will not be used to evaluate your performance in the topic.

Scenario

Assume the role of a manager in a fictional situation and explore different outcomes based on your choices (5-10 minutes).

Check Your Knowledge

Assess your understanding of key points by completing a 10-question quiz (10 minutes).

Scenario: Part 1

Part 1

Samantha is a project manager for Touchstone Technologies, a small, privately owned engineering development company. While working on a project involving wireless technology, Samantha sees a major opportunity for Touchstone to expand its business. Samantha's idea is to launch a new line of wireless products, using Touchstone's technology.

When Samantha describes her idea to Touchstone's owners, they think the idea has potential. However, they have a few concerns. They ask Samantha to prepare a business plan to be sure the initiative makes financial sense. Samantha has never written a business plan before, and she's not sure exactly where to begin.

What should Samantha do first?

- Gather the financial information she'll need to write the plan and make a convincing case for the initiative

Not the best choice.

Though her final plan will need to make a convincing financial case, Samantha should first think about why she's preparing the plan. Her purpose will determine the components of the final document. For example, plans that are presented internally tend to use less formal language than those presented to potential outside investors. In addition, they may include some different components than plans intended for outside readers would contain.

- Draft an executive summary of the plan's key components and highlights, focusing on the owners' concerns

Not the best choice.

Samantha should not draft her executive summary until she has defined the plan's purpose and audience and determined her information needs. In fact, *writing* a business plan is the final step in a much lengthier process of *preparing* the plan. When Samantha does write the executive summary, she should then respond to the owners' concerns. Her executive summary should include brief

information about the industry and market environment for the initiative, the unique customer problem that the new product will solve, the potential risks and rewards of the effort, and the resources she'll need to launch the initiative.

- Define her purpose for preparing and presenting her plan, including what she hopes to accomplish

Correct choice.

Your purpose determines the overall structure of your business plan. Samantha's purpose is 1) to explain to Touchstone's owners how the initiative would work and what its benefits are and 2) to persuade the owners to approve and fund the initiative. After clarifying her purpose, Samantha should determine what her readers will need to know, and what she wants from them. Then she should identify her information needs and figure out where she can find the data necessary to flesh out her plan.

Scenario: Part 2

Part 2

After determining her purpose, audience, and information needs, Samantha begins the research process. She gathers information on the wireless technology industry, analyzing the potential costs, revenues, competition, and customers associated with her initiative. Then she thinks about how she can best tailor the contents of the plan to her particular situation. In addition to a cover page, table of contents, and executive summary, she wonders what other components she should include in her plan.

What other components might Samantha include in her plan?

- A milestones timeline, showing anticipated key achievements, such as market testing and first sale of the product

Good choice.

A milestones timeline is an attachment to a business plan. The timeline lists clearly defined and easily measured *major* events that you anticipate achieving while implementing your initiative. This attachment gives your readers a sense of how long you expect it to take for your initiative to become successful. In a milestones timeline, you should use generic dates indicating elapsed time (such as, month 1: design phase) rather than actual dates. Also, you should present an ambitious, yet realistic, timeline.

- A management summary, explaining who will implement the initiative and what skills they bring to the table

Not the best choice.

Samantha would not need to include a management summary since she is preparing a business plan for a new initiative within Touchstone. However, a management summary would be appropriate for a business plan that describes a new venture to outside investors who don't know you or aren't yet familiar with your idea. Management summaries describe each member of the team that will be implementing the plan—including his or her experience and accomplishments, unique knowledge and skills, and motivations. These summaries also describe the team as a whole, identifying its strengths, weaknesses, and management philosophy.

- An operations plan, previewing the expected daily activities needed to make the initiative generate a profit

Good choice.

Operations represents the work of a business—the transforming of ideas or raw materials into products or services to be sold to the customer. The operations plan explains the critical success factors that will enable the initiative to create value for all stakeholders. One of the most important critical successful factors is the breakeven point—the point at which you've sold enough units to cover the cost of producing those units and can begin making a profit. Other critical success factors include innovative manufacturing processes, a favorable geographical location, access to skilled employees, or an effective pricing strategy.

Scenario: Part 3

Part 3

Samantha prepares the milestones and operations sections of her plan, as well as the financial portion. In the financial section, she explains how much money she thinks Touchstone will need to invest in the initiative, maps projected revenues and costs over the next three years, and states the financial returns she expects the initiative to generate.

Then she turns to the competitive analysis section of the plan. She lists all the major competitors, describing their strengths and weaknesses, and explaining why her technology would be better. During her research, she discovers that SmithCo, a company in an unrelated industry, is developing a very different technology to address roughly the same customer problems as described in Samantha's proposal. Samantha wonders how to treat SmithCo in her competitive analysis.

How should Samantha best treat SmithCo in her competitive analysis?

- As a direct competitor, since SmithCo's product will address customer problems similar to those in Samantha's proposal

Correct choice.

SmithCo is definitely a direct competitor, because it is seeking to address a customer problem similar to that which Samantha's product would address—even if through different means. Companies in seemingly unrelated industries that address similar customer needs are rivals. For example, if you sell motorcycles to provide an affordable alternative to owning a car, your competitors would include companies that provide public transportation—since that service solves the same consumer problem.

- As a potential competitor, since SmithCo may decide to develop technologies that are more like those in Samantha's proposal

Not the best choice.

SmithCo is actually a direct competitor, since its product will meet the same customer needs as Samantha's. Potential competitors would include companies that may decide to develop and promote competing products *after* Touchstone launches its product line (assuming that Touchstone's product scores a success in the marketplace). In fact, one of the downsides of developing a successful product is that its success attracts new rivals who want to "get in on the action."

- As an unlikely competitor, since SmithCo is in an unrelated industry and is offering a very different product than Samantha is proposing

Not the best choice.

SmithCo is competing directly with Touchstone because its product seeks to address similar customer problems—even if the company is in an entirely different industry and is offering a very different product. These sorts of rivals can be more dangerous than you might think, because they're harder to spot than companies that make obviously similar products to yours. Samantha should therefore take special care in explaining how Touchstone's technology and product will serve customers' needs better than SmithCo's.

Scenario: Conclusion

Conclusion

By thoroughly identifying competitors in the competitive analysis section of her plan, Samantha further boosts her chances of answering her readers' questions and addressing their concerns about her idea.

Every business—whether a start-up, an expansion of an existing firm, or even a smaller project within a department—needs a guide to navigate through its own unique competitive environment. The business plan serves as that guide. By putting sufficient thought and research into your plan, tailoring its structure to suit your specific situation, and fully understanding the competitive arena you're entering, you stand a better chance of developing a healthy, thriving enterprise.

Activity: Check Your Knowledge: Question 1

The executive summary portion of your business plan is best written after you draft the rest of the plan. True or false?

- True

Correct choice.

Since the executive summary should be a concise presentation of the major points in your business plan, it is best written last. If you were to write it at the beginning, you probably would end up making significant revisions later.

- False

Not the best choice.

This statement is actually true. Since the executive summary should be a concise presentation of the major points in your business plan, it is best written last. If you were to write it at the beginning, you probably would end up making significant revisions later.

Check Your Knowledge: Question 2

You're drafting a business plan and have defined who your colleagues and competitors will be. You're providing information on which of the following?

- The market

Not the best choice.

The market is where your products and services will be sold, and it determines your opportunity and your customers. If you're defining your colleagues and competitors, you're providing information on the *industry*, not the market. The industry is the group of companies that

produces and sells products or services to the market, so it determines who your colleagues and competitors will be.

- [The marketing mix](#)

Not the best choice.

The marketing mix is a blend of strategies guiding what your product will be, how you'll price it, and how you'll distribute and promote it. If you're defining your colleagues and competitors, you're providing information on the *industry*, not the marketing mix. The industry is the group of companies that produces and sells products or services to the market, so it determines who your colleagues and competitors will be.

- [The industry](#)

Correct choice.

The industry is the group of companies that produces and sells products or services to the market, so it determines who your colleagues and competitors will be.

Check Your Knowledge: Question 3

In a Venn diagram, the area of overlap between analysis of the industry and the market is called:

- [Business opportunity](#)

Correct choice.

The terms *industry* and *market* describe parts of the total business environment. The area of intersection between industry and market in a Venn diagram represents your *business opportunity*—that space in which the customer need and the product or service meet.

- [Distribution channel](#)

Not the best choice.

"Distribution channel" refers to the means by which you deliver your product or service to customers, not the area of overlap between analysis of the industry and the market in a Venn diagram. The terms *industry* and *market* describe parts of the total business environment. The area of intersection between industry and market in a Venn diagram represents your *business opportunity*—that space in which the customer need and the product or service meet.

- [Promotion strategy](#)

Not the best choice.

"Promotion strategy" refers to how you'll create consumer awareness of your product, not the area of overlap between analysis of the industry and the market in a Venn diagram. The terms *industry* and *market* describe parts of the total business environment. The area of intersection between industry and market in a Venn diagram represents your *business opportunity*—that space in which the customer need and the product or service meet.

Check Your Knowledge: Question 4

The part of the business plan that details the daily flow of activities and work of the business, such as how raw materials will be turned into finished goods to be sold, is called the:

- [Marketing plan](#)

Not the best choice.

The marketing plan describes how you intend to sell your product or service—that is, how you will motivate the customer to buy, not the daily flow of activities and work of the business.

- [Business description](#)

Not the best choice.

The business description gives a brief yet informative picture of the history, the basic nature, and the purpose of your business—not the daily flow of activities and work of the business.

- [Operations plan](#)

Correct choice.

The operations plan should show how work would be accomplished, with a focus on the critical operating factors that will make your proposed business a success.

Check Your Knowledge: Question 5

_____ is the minimum rate of return that is expected of all projects in a company.

- [Hurdle rate](#)

Correct choice.

If a project or venture doesn't pass the company's hurdle rate—the minimum rate of return that's expected of all projects in a company—it may not get approved or funded.

- [Gross margin](#)

Not the best choice.

Gross margin is gross income divided by net sales, expressed as a percentage—not the minimum rate of return that's expected of all projects in a company.

- [Return on investment](#)

Not the best choice.

Return on investment measures how effectively a company uses its capital to generate profit—not the minimum rate of return that's expected of all projects in a company.

Check Your Knowledge: Question 6

A financial tool that you could use to show the point at which the business or venture is expected to neither be losing money nor making money is a:

- [Balance sheet](#)

Not the best choice.

A balance sheet is a financial statement that shows a company's assets, liabilities, and net worth at a specific point in time—not the point at which a business is expected to be neither losing nor making money.

- [Breakeven analysis](#)

Correct choice.

The breakeven point is the pivotal time when a business can begin to earn a profit. Readers of business plans want to know when and at what level of sales the breakeven point will occur. Breakeven analysis enables you to provide that information.

- [Cash flow analysis](#)

Not the best choice.

Cash flow analysis details the exchange of cash between a business and the outside world—not the point at which a business is expected to be neither losing nor making money.

Check Your Knowledge: Question 7

The parts of the financial plan that show the profit margins you expect your business to achieve are the:

- [Pro forma income statements](#)

Correct choice.

Pro forma income statements represent your most honest analysis of the financial progress of the business. Income statements, also known as profit and loss statements, show expected profit margins as well as revenue, operating margin, and net income.

- [Balance sheets](#)

Not the best choice.

A balance sheet is a snapshot of a business that shows how efficiently it is using its capital at a particular point in time—not the part of the financial plan showing profit margins you expect to achieve.

Check Your Knowledge: Question 8

When developing the milestones portion of your business plan, it is generally advisable to do all of the following *except*:

- Include only major events, not every individual step

Not the best choice.

You actually *should* include only major events in the milestone portion of your business plan, since milestones represent significant, not minor, achievements. Using actual dates is *not* advisable. Instead, you should use dates, such as six months or one year, rather than actual dates. That's because specific dates are not always needed, and they leave you less room for maneuvering than general dates.

- Use actual dates

Correct choice.

It is generally not advisable to use actual dates in the milestone portion of your business plan. Instead, you should use general dates, such as six months or one year, rather than actual dates. Specific dates are not always needed, and they leave you less room for maneuvering than general dates.

- Develop an ambitious schedule you can meet

Not the best choice.

To impress investors and improve your reputation, you actually *should* develop an ambitious schedule that you can meet. Using actual dates is *not* advisable. Instead, you should use general dates, such as six months or one year, rather than actual dates. That's because specific dates are not always needed, and they leave you less room for maneuvering than general dates.

Check Your Knowledge: Question 9

When writing the business description part of your business plan, it is advisable to maintain a businesslike tone and to avoid infusing the summary with your own enthusiasm. True or false?

- True

Not the best choice.

This statement is actually false. While you want to use a professional, businesslike tone, the business description section of your business plan also provides you with an opportunity to incorporate some of your enthusiasm and conviction that this business concept will be a successful venture. It's a chance for you present the value of your concept—why you believe the business will be a success.

- False

Correct choice.

While you want to use a professional, businesslike tone, the business description section of your business plan also provides you with an opportunity to incorporate some of your enthusiasm and conviction that this business concept will be a successful venture. It's a chance for you present the value of your concept—why you believe the business will be a success.

Check Your Knowledge: Question 10

A business plan is typically written once to secure funding, and is not the type of plan to be monitored or updated since it cannot help direct operations. True or false?

- True

Not the best choice.

This statement is actually false. A business plan isn't just a static document that is written once and then put on a shelf. It can and should be a dynamic document that you monitor and update to track the progress of your business.

- False

Correct choice.

While some people may perceive the business plan as a static document that is written once and then put on the shelf, it is very appropriate to routinely monitor and update it to help track the progress of your business.

Check Your Knowledge: Results

Your score:

Steps for determining your information needs

1. Review the elements of a basic business plan.

Look at the larger picture to determine which pieces are filled in and which pieces need more attention. Depending on your business venture, you may not need to devote as much attention

to some parts of a business plan as others, but be sure each section is addressed as fully as needed. For example, Laszlo emphasized the marketing concerns of PCC because they were the critical success factors. The operating plan, however, had fewer variables and received less attention.

2. Define the categories of information you need.

As you develop your business plan, you might find that you are focusing on your own business without stepping back to look at the broader picture of the competitive industry. For example, you may have all the information you need about producing your own product, but you don't know what your competitors' production costs are. This information is important to ensure the cost competitiveness of your product.

Another area that may not be given adequate attention is the regulatory arena. Are you fully informed about government tax or regulatory issues that may affect your business? For example, if you are planning to trade internationally, then you should check on the trade regulations of both your home country and the foreign country.

3. Determine the critical information you have.

Don't waste your time and efforts on finished work. Checking that you have complete information on certain critical areas will allow you to devote your energies to those areas that need further work. For example, if you already have distribution choices identified, then move on to other concerns such as researching OSHA requirements on the production floor.

4. Determine the information you need to retrieve.

As you are making this assessment, keep in mind that you should focus only on the critical areas of information you need. Typically, these areas will be outside of your expertise. If you are a marketer, then the finance or production information may be lacking.

Get help to determine information needs. Since the gaps will generally lie in unfamiliar territory, find someone on your team or hire a consultant to guide you through the process of determining what and how much information you need in that region.

5. Explore where and how will you get it.

In many ways, access to information is becoming easier and easier. The Internet continues to grow exponentially, providing information at a keystroke. Use search engines to find the Web sites for government, industry, marketing, and company information. For example:

- The Small Business Administration (SBA) has a wealth of information on its Web site, and other government agencies offer regulatory and tax information online.
- Accounting firms have Web sites that can help you develop your financial plans.
- Company Web sites can give you competitive and market information.

Industry publications - newsletters, journals, etc. - are a rich source of information. Check out these resources for your own industry and the industries involved in the process of producing your product or service. For example, if the distribution of your product requires trucking, you might want to read some trucking industry journals.

Market research may require professional help. If you need more information about the buying patterns of your target market, then a marketing consultant could develop a research program to find the answers you need.

Have you located the resources or potential strategic partnerships that are available? Don't forget the resources of the SBA—it's one arm of the government that can provide help, information, and services for new business ventures.

Steps for developing the marketing plan

1. Open with a summary of your marketing mix.

Just as an executive summary serves the function of giving quick information to the reader of the business plan, so too an upfront summary of your overall marketing plan helps your reader know what to expect as he or she reads on.

2. Identify your target market or target niche within a market.

Even though you have addressed this issue in another part of the business plan, restate it briefly here. Your reader may have skipped to this section without having read the earlier discussion of the target market, and even if the reader has read all sections, a quick reminder can only help get your message across. So, before you begin to describe how you plan to sell your product or service, let your reader know to whom you are selling. By having the target market or the niche within a target market in mind, your reader can make a more reasoned evaluation of your marketing plan.

3. Give a summary of the competition.

Again, a quick review of the pertinent factors of the marketing plan helps the reader understand the strategy of your plan. State who the competitors are and describe their marketing strategies. That information serves as a contrast to your own plan.

4. Describe the key factors of success within the industry.

Is quick response something customers expect? Are technological improvements in product or production process the key to success in your industry? Are consumers looking for lowest prices? Make sure your reader understands what factors are important for this particular target market.

5. Define your marketing mix in terms of the four Ps: *product, price, place, promotion*.

In this section, describe how you will market your product or service and give your rationale for your choices of marketing strategies. Your reader will want to see how each marketing decision addresses the target market's needs and the competitors' alternatives.

You should discuss each of the four Ps, even if you don't necessarily use all of them. The reader will expect to see them all in your plan. For example, if your service is provided instantly via telecommunications, then *place* may not require as much attention as *promotion* for developing a brand awareness of your service.

6. Give the timeline for implementing your marketing strategies.

By identifying specific times (use "first month" rather than an actual date) for implementing your marketing plan, you will give your reader a sense of the overall time frame and expectations for results. A timeline, whether stated in words or pictorially as a graph, will give a concrete reality to the ideas of the marketing proposal.

7. Conclude with a vision of future plans.

You have been focusing on getting a particular product or service launched, but the reader may wonder, what's next? Where do you intend to take your idea after the initial start-up? Give the reader an idea of how you intend to expand and grow in the future. Will you broaden the market geographically or by age range? Will you add new products to your line? By revealing your vision of the business beyond the three to five years indicated in the pro forma financial plans, you can share with the reader your enthusiasm about the broader potential of the business venture.

Tips for developing the business description

- Write it before you begin the business plan, then rewrite it after you finish. This will help you articulate those areas that may have changed or developed during the process of writing the business plan.
- Be enthusiastic. This is the section in which you present the value of your concept—why you believe the business will be a success.
- Be accurate. Balance your enthusiasm for the venture with a measured acknowledgment of the risks and costs involved.
- Emphasize the skills and experience of the management team. Readers who are familiar with the industry will be most interested in the quality of the people.

Tips for doing the research

- Check the most accessible sources first. Don't be overwhelmed by all the information out there—stay focused on finding the information you need for your business venture.
- Document your sources. Good record keeping at the research stage will pay off in the short and long term.
- Remember that the world changes—industry, market, and competitor research is an ongoing process.

Tips for developing the marketing plan

- Base your plan on the most accurate and most current information available.
- Document your information. Your claims about market growth or competitor response should be supported by realistic and verifiable information.
- Continue to adjust your marketing plan. Show that your plan is not set in stone but is open for review and adjustment—even radical change, if need be.
- Focus on customers and customers' needs. Show how you will be monitoring customer response and modified expectations.

Tips for preparing a financial plan

- Document your assumptions, as well as the sources for your numbers—whether they are economic forecasts, industry statistics, or your own rational guesses.
- Pay close attention to cash planning. Although most people think of profits first, cash flow can be more important for a start-up venture.
- Do the number crunching yourself. Even if you are not a numbers person and have expert advice, get in there and do the gritty work of building an income statement and balance sheet.

- Don't plan on overburdening the business with too much debt. Debt can seem attractive—ready cash!—but too much debt can weigh down a company's ability to grow.

Tips for developing a milestones plan

- Include only major events, not each individual step.
- Choose milestones that can be clearly defined and easily measured—for example, prototype product development, installation of computer system, market testing completed, first customer sale.
- Use generic dates, such as month six or year one, rather than actual dates.
- Give yourself room for the unexpected. You never know when a problem will occur that slows you down.
- On the other hand, develop an ambitious schedule that you can meet. This will impress investors and improve your reputation.

Pro forma financial package

Pro Forma Financial Package

Contents	
Introduction	This sheet
Base Year	Data entry sheet for first year estimates/actual data
Assumptions	Data entry sheet for assumptions relating to major line items
Income Statement	Pro forma Income Statement
Balance Sheet	Pro forma Balance Sheet
Cash Flow	Pro forma Cash Flow Statement
Income Statement Chart	Projected Income Statement Chart
Balance Sheet Chart	Projected Balance Sheet Chart
Cash Flow Chart	Projected Cash Flow Chart
Cumulative Free	Free Cash Flow Chart
Cash Flow Chart	

Overview

Planning for the future is something managers spend much of their time doing. Marketing plans new products, manufacturing plans material requirements, and finance plans how much money the company needs to operate from day-to-day. This is where financial forecasting comes in. When a company runs out of money there is nothing they can do, short of winning the lottery, to sustain themselves over the long-run. By developing pro forma financial forecasts, managers can estimate their financing requirements and make plans accordingly. Through financial modeling, managers construct "what-if" scenarios by changing model inputs and observing the results, for better or worse. The Pro forma model tool helps you build and analyze companies using this approach.

One major use of pro forma forecasting is estimating the future external financing needs of a company. This allows managers to seek out the necessary cash in-flows before they impact normal company operations. There are several methods of forecasting financial statements, one of which is the percent-of-sales method. This simple but effective approach involves tying many of the income statement and balance sheet figures to future sales. This system works well because many of the variable costs and most current assets and liabilities vary more-or-less directly with sales. There are exceptions to this rule, but for our purposes (and this model) many of the line items take their cues from the annual growth in sales revenues.

The goal of this tool is to guide you through the creation of a simple pro forma income statement, balance sheet, and cash flow analysis for a business. Your results will be simple and, for more advanced forecasting, you may need to adopt a more sophisticated financial planning tool. However, this tool will help you develop a solid initial understanding of the economics of a business and forecasting in general.

In order to make your task as easy as possible, the workbook will ask you to provide several initial financial numbers. It will then generate your financial statements and projections using very basic assumptions that it draws from your inputs. If you then need to change these assumptions in order to refine your projections, you may do so.

Before you begin, take a few minutes to look at the various tabs within the workbook. We've provided some sample data to give you a feel for how your results might look when you're done.

Sample business plan

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Why Develop Others?

“At the end of the day, you bet on people, not strategies.”

Larry Bossidy

Former CEO, AlliedSignal

In today's global business environment, markets and regulations change quickly. Competitors constantly innovate. Technological changes are the norm.

In order to outmaneuver the competition and meet the demands of the moment, organizations must be agile. They must execute flawlessly. And they must transform themselves continuously.

Are your leaders ready?

Dr. Noel M. Tichy
Professor
University of Michigan Ross School of Business

We have now entered an era where I don't care what industry you're in, you need leaders who can make decisions, make judgment calls at every single level. All the way down to the interface with the customer.

If you go to a company like Google or any of the high tech companies, a lot of the innovation that Amazon does is happening right at the front line. Go ahead, try it, put it out there, we'll learn from it. That cannot happen if the senior leadership doesn't have a commitment to both develop the leadership capability, but develop the business through engaging people at all levels of the organization.

Becoming a teaching organization

I like to tell parents that they cannot delegate their responsibility to develop their children. And I think it is the same in an organization. Day in and day out the person that has the biggest impact on people in the organization is the next level above and the associates around and below. And so to build a learning organization I say is not enough. Learning could be, you know we are learning cooking, we are learning this or that, but teaching organizations, when I learned something, I have a responsibility to teach my colleagues.

So everybody takes responsibility for generating new knowledge and it is not enough to be a learner, you then have to translate it into teaching.

The Virtuous Teaching Cycle

The role of a leader is to ensure that the people who work for them and around them are better every day. There's only one way to make people better. It's to teach them, learn from them, create what I call "virtuous teaching cycles", not command and control.

A virtuous teaching cycle is teach learn, teach learn. And the leader has a responsibility for reducing the hierarchy, for having a point of view to start the discussion, but then to be responsible to hear everyone's voice, get everyone involved in a disciplined way. It is not a free for all. But it is the leader's responsibility to create that virtuous teaching cycle.

A wonderful example of virtuous teaching cycle is the program that Roger Enrico ran at Pepsi, where every one of the 10 vice presidents comes with a business project.

Roger Enrico gets smarter as result of five days with 10 vice presidents, because he's learning from them. He needs to lower the hierarchy. He needs to be open to learning. And in turn, the people participating need to be energized and empowered to come up and engage in problem solving.

Another example is at Best Buy, where every morning in the stores you would bring 20 associates or so together and they would review the profit and loss statement from the day before, what we learned from the different customer segments in our stores, what we can do to improve our performance this day. And they do that every single day. The store manager was learning mostly from the associates on the floor.

That was a virtuous teaching cycle where everybody is teaching everybody, everybody is learning and the result has been an incredible result at Best Buy.

“The growth and development of people is the highest calling of leadership.”

- Harvey S. Firestone

Founder, Firestone Tire and Rubber Co

There are clear advantages to leader-led development.

But for many leaders, taking on teaching, coaching, and other development responsibilities can seem daunting. You might avoid taking on these roles due to lack of time, resources, or your own lack of comfort with this role.

The following tips and resources can help you impart valuable learning to your team every day.

To develop others...

- Start with a Teachable Point of View

The first requirement of being able to develop other leaders is to have what I call a teachable point of view. I often give the example of, if I ran a tennis camp and you just came to day one of the tennis camp, I better have a teachable point of view on how I teach tennis. So you are standing there looking at me and it has got four elements. One, the ideas, well how do I teach the backhand, the forehand, the serve, rules of tennis. Then if I am a good tennis coach, I have a set of values. What are the right behaviors I want, how do I want you to dress, how do I want you to behave on the tennis court.

But if that's all I have, what do I do? Show you a power point presentation and then expect you to hit 500 backhands, 500 serves, run around for eight hours. I have to have a teachable point of view on emotional energy. How do I motivate you to buy in to the ideas and values?

On one end of the spectrum it could be I threaten you with corporal punishment, the other I can give you stock options, I can make you feel good about yourself, I can help you develop as a human being, what motivates you.

And then finally, how do I make the tough judgment calls, the yes/no, decisions as the tennis coach, the ball is in, the ball is out. I don't hire consultants and set up a committee, it is yes/no. And the same with running a business, what are the products, services, distribution channels, customer segments that are going to grow top line growth and profitability of the organization.

What are the values that I want everyone in the organization to have, how do I emotionally energize thousands of people, and then how do I make the yes/no, judgments on people and on business issues. So the fundamental building block of being able to develop other leaders is to have that teachable point of view just like the tennis coach.

To develop others...

- Lead with questions

Questions are hugely important because you want to create dialogue and again, what I call a virtuous teaching cycle where the teacher learns from the students and vice versa. Which means everybody ought to be free to ask whatever is on their mind, whatever it will take to get clarity and understanding, but it is not the leader just coming in and freeform asking questions. I believe the leader has a responsibility for framing the discussion, for having as best they can a teachable point of view, they may need help from their people in flushing it out, but they need to set the stage but then it has to be a very interactive, what I call virtuous teaching cycle environment, teach learn, teach learn, teach learn.

To develop others...

- Make it part of your routine

A good example to me of an outstanding leader developing other leaders is Myrtle Potter who at the time I am commenting was Chief Operating Officer of Genentech running the commercial side of the business. And she would take time at the end of every single meeting and do some coaching of the whole team on how we could perform as a team better, and then she would often take individuals and say, could we spend 10 minutes over a cup of coffee, I want to give you some feedback and coaching on that report that you just presented on or how you are handling a particularly difficult human resource issue, but it was part of her regular routine. And I think the challenge for all of us as leaders is to make that a way of life and it is built into the fabric of how we lead and it is not a one off event, three times a year. It is happening almost every day.

To develop others...

- Make it a priority

One of the biggest challenges in getting people kind of on this path is to overcome some of their own resistance, either fear or the way I view the world I don't have time for this, everybody can make time. Roger Enrico is CEO of Pepsi. He didn't have time to go off for a week at a time and run training sessions. He had to readjust his calendar. So it requires you to look in the mirror and say, is this important. If it is important, of course I can make the time. Then I have to get over my own anxiety on how well I can do it, but it is a commitment to get on the path that says: this is how I am going to drive my own performance and the performance of my colleagues.

To develop others...

- Learn to teach

I think the biggest mistake is to assume you are going to be good at it right off the bat. It is like learning anything else. First time you go out and try and play tennis, good luck. But you got to stay with it and you got to engage your people in helping make you better and them better. And so it is a journey you need to get on, not I am going to do it perfectly when I start out.

If you want to be a great leader who is a great teacher, it's very simple. You have got to dive into the deep end of the pool. But you've got to dive into the pool with preparation. I don't want you drowning. I want you succeeding. It is extraordinarily rewarding for most human beings to teach others. I think once you can turn that switch on, it is self perpetuating. You get a lot of reinforcement, your team is better. You perform better because your performance goes up and it becomes this virtuous teaching cycle.

Your opportunity to develop others

We've heard why developing others can drive greater business results, and how to make the most of your leader-led development efforts. The materials provided in Develop Others enable you to create personalized learning experiences for YOUR team within the flow of their daily activities. Use the guides and projects to engage your team quickly. And to explore how key concepts apply to them in the context of their priorities and goals.

The value of teaching is the performance of the organization is totally dependent on making your people smarter and more aligned every day as the world changes. In the 21st century we are not going to get by with command and control. We are going to have to get by with knowledge creation. The way you create knowledge in an organization is you create these virtuous teaching cycles where you are teaching and learning simultaneously, responding to

customer demands and changes, responding to changes in the global environment. My bottom line is if you're not teaching, you're not leading.

A leader's most important role in any organization is making good judgments — well informed, wise decisions about people, strategy and crises that produce the desired outcomes. When a leader shows consistently good judgment, little else matters. When he or she shows poor judgment nothing else matters. In addition to making their own good judgment calls, good leaders develop good judgment among their team members.

Dr. Noel M. Tichy
Professor, University of Michigan Ross School of Business

Dr. Noel M. Tichy is Professor of Management and Organizations, and Director of the Global Business Partnership at the University of Michigan Ross School of Business. The Global Business Partnership links companies and students around the world to develop and engage business leaders to incorporate global citizenship activities, both environmental projects and human capital development, for those at the bottom of the pyramid. Previously, Noel was head of General Electric's Leadership Center at Crotonville, where he led the transformation to action learning at GE. Between 1985 and 1987, he was Manager of Management Education for GE where he directed its worldwide development efforts at Crotonville. He currently consults widely in both the private and public sectors. He is a senior partner in Action Learning Associates. Noel is author of numerous books and articles, including:

For more information about Noel Tichy, visit <http://www.noeltichy.com>.

Share an Idea

Leaders are in a unique position to recognize the ideas and tools that are most relevant and useful for their teams. If you only have a few minutes, consider sharing an idea or tool from this topic with your team or peers that is relevant and timely to their situation.

For example, consider sending one of the three recommended ideas or tools below to your team with your comments or questions on how the idea or tool can be of value to your organization. By simply sharing the item, you can easily engage others in important conversations and activities relevant to your goals and priorities.

[Sample business plan](#)
[Steps for determining your information needs](#)
[Steps for developing the marketing plan](#)

To share an idea, tip, step, or tool with your comments via e-mail, select the EMAIL link in the upper right corner of the page that contains the idea, tip, step, or tool that you wish to share.

Discussion 1: Describing your business concept

When your team members come up with an idea for a new product or service, they need to develop a business plan. The plan spells out how they intend to meet the expected and unexpected opportunities

and obstacles the future holds for their business. And it details how they plan to navigate successfully through the business's unique competitive environment.

One key element of the plan is the business description. This summary focuses directly on the business concept itself — for example, briefly describing the markets your team members will be pursuing, the product or service itself, and the appeal that the offering will have for its intended users.

The business-concept description gives team members the chance to introduce their idea in terms of its unique qualities and the positive business environment existing for the product or service. Here they can also make it clear why their concept is exciting. And they can express their commitment and capacity for making the business succeed.

Use these resources to lead a discussion with your team about how to clearly describe their business concept, so they can incorporate this information into the business-description component of their plan.

Download resources:

[Discussion Invitation: Describing Your Business Concept](#)

[Discussion Guide: Describing Your Business Concept](#)

[Discussion Slides: Describing Your Business Concept \(optional\)](#)

[Tips for Preparing for and Leading the Discussion](#)

Note: If your team has only a few members who have an idea for a new product or service, consider partnering with a peer manager to co-lead the discussion for your combined teams. Consider inviting team members who aren't currently working on a business concept. They can learn by listening to their colleagues who have business concepts in mind, and may be able to offer helpful feedback their colleagues can use to refine their thinking. You may also choose to pre-select a particular business concept to use as a focus for the discussion.

Working through the discussion guide can take up to 45 minutes. If you prefer a shorter 15- or 30-minute session, you may want to focus only on those concepts and activities most relevant to your situation.

Discussion 2: Identifying operational success factors

In developing a business plan for a product or service, your team members must include an operations section in the plan. Operations consist of the processes and activities needed to transform ideas or raw materials into products or services to be sold to customers. To craft an effective business plan, your team members need to develop a high-level view of the operations required for their business concept.

They should also understand that operations can be valuable sources of competitive advantage. For example, if your people know of cheap sources of raw materials required for their product, they can help lower the costs of producing the product. They may then be able to lower the selling price — and attract more customers.

By identifying operational advantages crucial to their business idea, your team members can cite those advantages in the operations section of their business plan. The plan will thus be far more compelling to decision makers who hold the fate of your team's business plan in their hands.

Use these resources to lead a discussion with your team about what operations will be required to implement their business idea and what competitive advantages those operations might present.

Download resources:

[Discussion Invitation: Identifying Operational Success Factors](#)

[Discussion Guide: Identifying Operational Success Factors](#)

[Discussion Slides: Identifying Operational Success Factors \(optional\)](#)

[Tips for Preparing for and Leading the Discussion](#)

Note: If your team has only a few members who might benefit from the discussion, consider partnering with a peer manager to co-lead the discussion for your combined teams.

Working through the discussion guide can take up to 45 minutes. If you prefer a shorter 15- or 30-minute session, you may want to focus only on those concepts and activities most relevant to your situation.

Start a Group Project

Just like any change effort, successfully incorporating new skills and behaviors into one's daily activities and habits takes time and effort. After reviewing or discussing the concepts in this topic, your direct reports will still need your support to fully apply new concepts and skills. They will need to overcome a variety of barriers including a lack of time, lack of confidence, and a fear of making mistakes. They will also need opportunities to hone their skills and break old habits. To help ensure their success, you can provide safe opportunities for individuals and your team as a whole to practice and experiment with new skills and behaviors on the job.

For example, to encourage the adoption of new norms, you can provide your team members with coaching, feedback, and additional time to complete tasks that require the use of new skills. Management approaches such as these will encourage team members to experiment with new skills until they become proficient.

Group learning projects provide another valuable technique for accelerating team members' development of new behaviors. A group learning project is an on-the-job activity aimed at providing team members with direct experience implementing their new knowledge and skills. Through a learning project, team members discover how new concepts work in the context of their situation, while simultaneously having a direct and tangible impact on the organization.

The documents below provide steps, tips, and a template for initiating a group learning project with your team, along with two project recommendations for this topic.

Download resources:

[Tips for Initiating and Supporting a Learning Project](#)

[Learning Project Plan Template](#)

[Learning Project: Analyze the Business Environment for Your Idea](#)

[Learning Project: Develop a Marketing Plan for Your Idea](#)

How to Write a Winning Business Plan

[Stanley R. Rich and David E. Gumpert. "How to Write a Winning Business Plan." *Harvard Business Review*, January 2001.](#)

[Download file](#)

Summary

A well-conceived business plan is essential to the success of an enterprise. Whether you are starting up a venture, seeking additional capital for an existing product line, or proposing a new activity for a corporate division, you will have to write a plan detailing your project's resource requirements, marketing decisions, financial projections, production demands, and personnel needs. The plan must reflect the viewpoint of three constituencies: the customer, the investor, and the producer. Too many business plans focus excessively on the producer.

How to Make Your Case in 30 Seconds or Less

Nick Wreden. "How to Make Your Case in 30 Seconds or Less." *Harvard Management Communication Letter*, January 2002.

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Summary

If you ran into Warren Buffet on the street, would you know what to say? Having an "elevator speech" ready to go at a moment's notice will enable you to make the most of once-in-a-lifetime communication opportunities. The elevator pitch gets its name from the 30-second opportunity to tell—and sell—your story during a short elevator ride. Thirty seconds is also the typical amount of time you get to capture someone's attention. The purpose of an elevator speech is not to close a deal, but to pique your listener's attention enough to agree to move to the next level of commitment. And it's not just for funding requests—job interviews, networking events, PR opportunities, presentations to executives, and sales all demand the ability to deliver a quick and concise explanation of your case. Here, we present eight tips for being prepared with a winning pitch.

Good Money After Bad

John W. Mullins. "Good Money After Bad?" *Harvard Business Review*, March 2007.

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Summary

Christian Harbinson, a young associate at the venture capital firm Scharfstein Weekes, has a difficult decision to make before the next investment committee meeting. He's been watching over SW's investment in Seven Peaks Technologies, and sales of its single product have been disappointing. Now the company's head, Jack Brandon, wants another \$400,000 to pursue a new product. Harbinson believes in Brandon and in his proprietary technology—a titanium alloy that prevents surgical instruments from sticking to tissue. Three years ago, Brandon quit his job and put \$65,000 of his savings into developing a nonstick cauterizing device. Two distributors offered to carry it after they saw his demonstration at a trade show, and a couple of surgeons, quickly becoming enthusiastic, promised testimonials. But if Brandon's cauterizer is to take off, surgeons will have to abandon the forceps they've traditionally used and switch to the Seven Peaks device—a change in behavior that will

come slowly if at all. So, Brandon thinks, why not adapt his alloy to a line of forceps? Now Harbinson wonders if he himself has become emotionally overinvested in Seven Peaks and if this decision is as much a test of his VC potential as of the actual deal. Should Scharfstein Weekes back Brandon's company with a second round of funding, or would it be a case of throwing good money after bad?

Commenting on this fictional case study are Ivan Farneti, a partner with Doughty Hanson Technology Ventures; Fred Hassan, the chairman and CEO of Schering-Plough; Robert M. Johnson, a venture partner with Delta Partners and a visiting professor at the University of Navarro's IESE Business School; and Christoph Zott, an associate professor of entrepreneurship at Insead.

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